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Partnerships and Corporations

Module 3

Learning Facilitator's Manual

ACCOUNTING 30

Distance Learning

Alberta EDUCATION

Note

This Accounting Learning Facilitator's Manual contains answers to teacher-assessed assignments and the final test; therefore, it should be kept secure by the teacher. Students should not have access to these assignments or the final test until they are assigned in a supervised situation. The answers should be stored securely by the teacher at all times.

Accounting 30
Learning Facilitator's Manual
Module 3
Partnerships and Corporations
Alberta Distance Learning Centre
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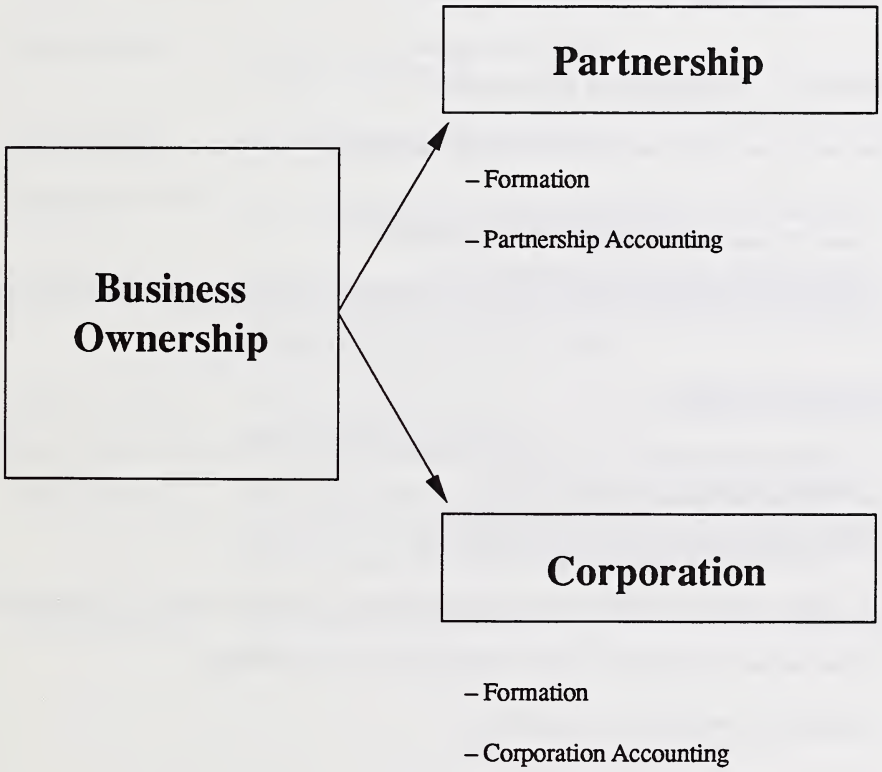
Module 3 Overview

In Accounting 10 and 20, students were involved in studying the sole proprietorship form of business ownership. In this module, the students will be involved in learning partnership and corporation accounting theory related to the formation of these business entities. They will also learn how to journalize the resulting transactions.

Students will also learn about the different types of ownership, and they will be able to compare and contrast worksheets and financial statements.



Evaluation

The student's mark in this module will be determined by the work in the Assignment Booklet. All assignments must be completed. In this module the student is expected to complete two section assignments. The suggested assignment breakdown is as follows:

Section 1 Assignment	50%
Section 2 Assignment	50%
Total	100%

Possible Classroom Openers

- Invite guest speakers to class to explain why they started a partnership.
- Invite guest speakers (financial consultants) to explain why people invest their money in stocks of a corporation.
- Discuss the merits of beginning a partnership rather than a sole proprietorship.
- Indicate various agencies that provide money for students who may wish to begin a partnership during their summer vacations.

Section 1: Setting Up a Partnership

The basic goals of this section are to ensure that students

- understand the need for and purpose of a partnership
- know the benefits and problems of a partnership
- understand the basic partnership agreement
- learn how to journalize the opening entry, goodwill, and the admission of a new partner

Possible Activities

- Contact a partnership in the local community and have a partner visit the class to explain why the business is organized as a partnership.
- Have students research the Partnership Act.
- Use the overhead to explain the legal implications and financial aspects of the partnership.
- Demonstrate the preparation of the opening entry for a partnership.
- Explain the intangible asset of goodwill.

Section 1 Activity 1

Using the form provided draw up a contract on July 10, 19xx, with the following provisions:

Company name:	Candles for You
Location:	The Mall
Length:	five years
Partners:	D.O. Well from Calgary, Alberta, and R. Poohn from Cochrane, Alberta
Responsibilities:	D.O. Well – accounting and marketing R. Poohn – production
Cheque signing:	Both partners must sign all cheques.
Division of profits and losses:	This will be handled on a separate agreement.
Partner disability:	If one of the partners is disabled due to poor health, the other partner will hire staff to replace the said partner, with all related costs coming from the disabled partner's share of the profits or losses.
Death of a partner:	The surviving partner may buy, at a price determined by an arbitrator the interest of the deceased partner.
Early termination:	If one partner wishes to terminate the business relationship, that partner must make an offer to buy out the second partner. The second partner can accept that offer, or use the same terms to buy out the first partner.
Mutual Dissolution:	The generally accepted accounting practices for liquidating a business will be used.

Partnership Agreement

This contract is made and signed on the *10th* day of *July* in the year *19xx*.

1. The name of the business will be *Candles for You* and is to be located at *The Mall*.

2. The partners in the business will be

R. Poohn	*Cochrane, Alberta*
(name)	(address)
and	
D.O. Well	*Calgary, Alberta*
(name)	(address)

who agree to enter into said business for a period of *five years*.

3. The responsibilities of the partners will be as follows:
R. Poohn will be primarily responsible for producing the candles.
D.O. Well will be primarily responsible for marketing and accounting.

4. Any cheques issued must be signed by *both partners.*

5. Division of all profits and losses, payment of salaries, and the matter of drawings will be *handled in a separate agreement.*

Page 2

6. If one of the partners becomes disabled, *staff will be hired to replace the said partner, with costs coming out of the said partner's share of the profits.*

7. Upon the death or withdrawal of one of the partners, *the remaining partner has the right to buy the said partner out at an arbitrated price.*

8. When the business is dissolved by mutual agreement, the method of liquidation will follow *generally accepted accounting practices.*

Signed

R. Poohn	sealed	*July 10, 19xx*
(name)		(date)
D.O. Well	sealed	*July 10, 19xx*
(name)		(date)

Section 1 Activity 2

On July 3, 19xx, James Telford and Bertha McMullin formed a partnership of two real estate offices. The balance sheets of both businesses were revalued and are shown.

James Telford
Balance Sheet
June 30, 19xx

Assets		
Current Assets		
Cash	7 1 0 0 00	
Accounts Receivable	8 4 0 0 00	
Prepaid Insurance	1 4 0 0 00	
Supplies	1 5 0 0 00	
Total Current Assets		18 4 0 0 00
Fixed Assets		
Office Equipment	10 6 0 0 00	
Automobile	12 0 0 0 00	
Total Fixed Assets		22 6 0 0 00
Total Assets		41 0 0 0 00
Liabilities		
Current Liabilities		
Accounts Payable	2 5 0 0 00	
Bank Loan	10 5 0 0 00	
Total Current Liabilities		13 0 0 0 00
Shareholders' Equity		
J. Telford, Capital		28 0 0 0 00
Total Liabilities and Shareholders' Equity		41 0 0 0 00

Bertha McMullin
Balance Sheet
June 30, 19xx

Assets		
Current Assets		
Cash	5 9 0 0 00	
Accounts Receivable	8 2 0 0 00	
Prepaid Insurance	1 5 0 0 00	
Supplies	1 3 0 0 00	
Total Current Assets		16 9 0 0 00
Fixed Assets		
Office Equipment	11 3 0 0 00	
Automobile	10 6 0 0 00	
Total Fixed Assets		21 9 0 0 00
Total Assets		38 8 0 0 00
Liabilities		
Current Liabilities		
Accounts Payable	3 2 0 0 00	
Bank Loan	11 3 0 0 00	
Total Current Liabilities		24 5 0 0 00
Shareholders' Equity		
B. McMullin, Capital		24 3 0 0 00
Total Liabilities and Shareholders' Equity		38 8 0 0 00

Instruction 1: Record the opening entry for the new partnership of McMullin and Telford on page 1 of the general journal. Use Memo No. 1 to record J. Telford's opening entry and Memo No. 2 for B. McMullin's.

GENERAL JOURNAL

PAGE 1

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx July	3	Cash		7 1 0 0 00		1
2			Accounts Receivable		8 4 0 0 00		2
3			Prepaid Insurance		1 4 0 0 00		3
4			Supplies		1 5 0 0 00		4
5			Office Equipment		10 6 0 0 00		5
6			Automobile		12 0 0 0 00		6
7			Accounts Payable			2 5 0 0 00	7
8			Bank Loan			10 5 0 0 00	8
9			J. Telford, Capital			28 0 0 0 00	9
10			Memo No. 1				10
11		3	Cash		5 9 0 0 00		11
12			Accounts Receivable		8 2 0 0 00		12
13			Prepaid Insurance		1 5 0 0 00		13
14			Supplies		1 3 0 0 00		14
15			Office Equipment		11 3 0 0 00		15
16			Automobile		10 6 0 0 00		16
17			Accounts Payable			3 2 0 0 00	17
18			Bank Loan			11 3 0 0 00	18
19			B. McMullin, Capital			24 3 0 0 00	19
20			Memo No. 2				20
21							21
22							22

Instruction 2: What is the journal entry to be recorded in the cash receipts journal (page 2) if B. McMullin's equity is to equal that of J. Telford's?

CASH RECEIPTS JOURNAL

PAGE 2

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL CREDIT	2 ACCOUNTS RECEIVABLE CREDIT	3 SALES CREDIT	4 SALES DISCOUNT DEBIT	5 CASH DEBIT	
1	19xx July	3	B. McMullin, Capital			3 7 0 0 00				3 7 0 0 00	1
2											2
3											3
4											4

Section 1 Activity 3

1. D. Jason and R. Small are partners in a travel agency. The partnership does not require any additional capital, but on Sept. 1, 19xx, they agree to admit T. Saville as an equal partner. The partners agree to sell one third of their equities to Mr. Saville to enable Mr. Saville to have a one-third interest.

   The Capital accounts of D. Jason and R. Small amount to $90 000.00 for each partner.

   a. If Mr. Saville is to have a one-third interest in the business, what must his total equity amount to?

      His total equity must amount to $60 000.00.

   b. Why would Mr. Saville's admission as a new partner require no entry in the cash receipts journal of the business?

      Mr. Saville purchases the interest from D. Jason and R. Small privately. The business does not receive any extra cash.

   c. On page 2 of the general journal, record Mr. Saville's admission as an equal partner into the new partnership.

GENERAL JOURNAL PAGE 2

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Sept.	1	D. Jason, Capital		30 000		1
2			R. Small, Capital		30 000		2
3			T. Saville, Capital			60 000	3
4							4
5							5

2. C. Bronson, B. London, and M. Rodriguez are partners in a restaurant. On January 2, 19xx, the three partners agree to admit G. Christopher with one-quarter interest. The equity of each of the old partners amounts to $40 000.00. G. Christopher agrees to enter into the new partnership with a one-quarter interest for $60 000.00.

   a. To enter the new business, how much equity must Mrs. G. Christopher transfer to each of the old partners?

      Mrs. Christopher must transfer $5 000.00 to each partner for a total of $15 000.00.

b. On page 1 of the cash receipts journal, record the investment of Mrs. G. Christopher and the increase in equities of C. Bronson, B. London, and M. Rodriguez.

CASH RECEIPTS JOURNAL PAGE 1

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL CREDIT	2 ACCOUNTS RECEIVABLE CREDIT	3 SALES CREDIT	4 SALES DISCOUNT DEBIT	5 CASH DEBIT	
1	19xx Jan.	2	G. Christopher, Capital			45 000.00				60 000.00	1
2			C. Bronson, Capital			5 000.00					2
3			B. London, Capital			5 000.00					3
4			M. Rodriguez, Capital			5 000.00					4
5											5
6											6

3. D. Seymour, R. Smith, and R. Ziegler are equal partners in an engineering firm. The total equity in the firm amounts to $165 000.00. To attract D. Hanson into the firm, the three partners offer D. Hanson one-quarter interest for a cash investment of $31 000.00. The new partnership is formed as of June 1, 19xx.

a. Calculate the total investments of the partners in the new partnership.

(1) D. Seymour *$ 55 000.00*

(2) R. Smith *$ 55 000.00*

(3) R. Ziegler *$ 55 000.00*

(4) D. Hanson *$ 31 000.00*

(5) Total *$196 000.00*

b. What amount would D. Hanson's equity become if he is to be an equal partner?

Hanson's equity would become $49 000.00.

c. On page 2 of the general journal, record the entry to decrease the equities of Seymour, Smith, and Ziegler.

GENERAL JOURNAL PAGE 2

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx June	1	D. Seymor, Capital		6 0 0 0 00		1
2			R. Smith, Capital		6 0 0 0 00		2
3			R. Ziegler, Capital		6 0 0 0 00		3
4			D. Hansen, Capital			18 0 0 0 00	4
5							5

d. Record D. Hanson's cash investment on page 1 of the cash receipts journal.

CASH RECEIPTS JOURNAL PAGE 1

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL CREDIT	2 ACCOUNTS RECEIVABLE CREDIT	3 SALES CREDIT	4 SALES DISCOUNT DEBIT	5 CASH DEBIT	
1	19xx June	1	D. Hanson, Capital			31 0 0 0 00				31 0 0 0 00	1
2											2
3											3
4											4

4. J. Collins and P. Little are partners in a successful grocery store. The total of the net assets of the partnership is $110 000.00. Each partner's capital account is $55 000.00. E. Tait is admitted as an equal partner with one-third interest for an investment of $65 000.00. The new partnership begins on March 1, 19xx.

a. What is the total equity as determined by the investment by E. Tait?

The total equity is $195 000.00.

b. Calculate the total investment of each partner and the goodwill.

(1) J. Collins *$ 55 000.00*

(2) P. Little *$ 55 000.00*

(3) E. Tait *$ 65 000.00*

(4) Total *$175 000.00*

(5) Goodwill *$ 20 000.00*

c. Record the goodwill on page 1 of the general journal.

GENERAL JOURNAL PAGE 1

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Mar.	1	Goodwill		20 0 0 0 00		1
2			J. Collins, Capital			10 0 0 0 00	2
3			P. Little, Capital			10 0 0 0 00	3
4							4
5							5

d. Record the cash investment by E. Tait on page 3 of the cash receipts journal.

CASH RECEIPTS JOURNAL PAGE 3

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL CREDIT	2 ACCOUNTS RECEIVABLE CREDIT	3 SALES CREDIT	4 SALES DISCOUNT DEBIT	5 CASH DEBIT	
1	19xx Mar.	1	E. Tait, Capital			65 0 0 0 00				65 0 0 0 00	1
2											2
3											3
4											4

Section 1 Follow-up Activities

Extra-help Activities

Extra-help Activity A

Abel and Baker are unemployed and wish to become partners in order to sell advertising on consignment. (They will get a percentage of what they sell.) They feel they will be successful due to contacts in their community, as well as the compatibility of their personal skills. The start-up costs total $1 000.00, with Abel and Baker agreeing to share the cost equally.

On September 1, 19xx, record each partner's investment of $500.00 on page 1 of the general journal.

GENERAL JOURNAL PAGE 1

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Sept.	1	Cash		1 0 0 0 00		1
2			Abel, Capital			5 0 0 00	2
3			Baker, Capital			5 0 0 00	3
4							4
5							5

Extra-help Activity B

Mr. Charlie runs a small pet grooming business, but he needs cash to expand his operation. He approaches Mrs. Drake who agrees to invest an amount equal to Mr. Charlie's equity in the business.

Mr. Charlie's current balance sheet is shown.

Charlie's Pet Emporium
Balance Sheet
June 30, 19xx

Assets		
Current Assets		
Cash	5 0 0 00	
Accounts Receivable	4 0 0 00	
Prepaid Insurance	2 5 0 00	
Supplies	1 5 0 00	
Total Current Assets		1 3 0 0 00
Fixed Assets		
Office Furniture	5 0 0 00	
Grooming Equipment	1 2 0 0 00	
Total Fixed Assets		1 7 0 0 00
Total Assets		3 0 0 0 00
Liabilities		
Accounts Payable		3 5 0 00
Capital		
Bob Charlie, Capital		2 6 5 0 00
Total Liabilities and Capital		3 0 0 0 00

Instruction: On July 1, 19xx, record Mrs. Drake's admittance as a partner into Bob Charlie's business. Use page 3 of the general journal.

GENERAL JOURNAL PAGE 3

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx July	1	Cash		2 6 5 0 00		1
2			D. Drake, Capital			2 6 5 0 00	2
3			To record investment				3
4							4
5							5

Extra-help Activity C

Mr. Charlie's equity shown on the balance sheet in Extra-help B is $2 650.00. Mrs. Drake is admitted into the business as an equal partner with an investment of $3 650.00. This indicates that two entries must be made – one for goodwill and one for the cash investment. Record the entries on July 1, 19xx.

Instruction 1: Record the goodwill in the general journal, page 2.

GENERAL JOURNAL PAGE 2

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx July	1	Goodwill		1 0 0 0 00		1
2			B. Charlie, Capital			1 0 0 0 00	2
3			To record value of goodwill				3
4							4
5							5

Instruction 2: Record the cash investment by Mrs. Drake in the cash receipts journal, page 3.

CASH RECEIPTS JOURNAL PAGE 3

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL CREDIT	2 ACCOUNTS RECEIVABLE CREDIT	3 SALES CREDIT	4 SALES DISCOUNT DEBIT	5 CASH DEBIT	
1	19xx July	1	D. Drake, Capital			3 6 5 0 00				3 6 5 0 00	1
2											2
3											3
4											4

Extra-help Activity D

P. Evans and B. Frank are equal partners in a surveying firm. The total equity of the firm is $10 000.00. T. Genert is an expert surveyor, so Evans and Frank offer him a one-third share in the firm for a cash investment of $2 000.00. Genert accepts a new partnership which is formed as of October 31, 19xx.

1. Calculate the total investment of the partners in the new partnership.

   a. P. Evans *$ 5 000.00*

   b. B. Frank *$ 5 000.00*

   c. T. Genert *$ 2 000.00*

   d. Total *$12 000.00*

2. What amount would T. Genert's equity be if he is to become an equal partner?

   T. Genert's equity would be $4 000.00.

3. On page 3 of the general journal, record the entry to decrease the equities of P. Evans and B. Frank.

GENERAL JOURNAL PAGE 3

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	Oct. 19xx	31	P. Evans, Capital		1 0 0 0 00		1
2			B. Frank, Capital		1 0 0 0 00		2
3			T. Genert, Capital			2 0 0 0 00	3
4							4
5							5

4. Record T. Genert's cash investment on page 2 of the cash receipts journal.

CASH RECEIPTS JOURNAL PAGE 2

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL CREDIT	2 ACCOUNTS RECEIVABLE CREDIT	3 SALES CREDIT	4 SALES DISCOUNT DEBIT	5 CASH DEBIT	
1	Oct. 19xx	31	T. Genert, Capital			2 0 0 0 00				2 0 0 0 00	1
2											2
3											3
4											4

Enrichment Activities

Enrichment Activity A

M.A. Donna and Stanley Cupp each own a small delivery and courier service. Donna's business is known as *Express Delivery*, and Cupp's is called *Cupp's Courier Service*. They realize that by combining their business assets and personal skills, greater income and better service will be achieved. They decide to create a partnership and make up the agreement for their new firm, *E.C. Courier Delivery*.

The new partners agree on the following:

- Each business will be evaluated on June 1 of this year, and they will combine their enterprises at that appraised value.
- The partner with the lesser equity value will contribute cash in order to equalize their Capital accounts.

The June 1 balance sheets contain the following information:

	Donna	Cupp
Accounts Receivable	$ 3 000.00	$ 2 000.00
Supplies	200.00	500.00
Delivery Equipment	10 000.00	8 000.00
Automobiles	18 000.00	8 000.00
Delivery Trucks	16 000.00	7 000.00
Office Equipment	6 000.00	4 000.00
Building	0	25 000.00
Total Assets	53 200.00	54 500.00
Accounts Payable	3 400.00	5 200.00
Capital Account	49 800.00	49 300.00

Instruction 1: Record, on page 1 of the general journal, the opening entry for the new partnership of Donna and Cupp. Use Memo No. 1 to record the opening entry for Donna and Memo No. 2 for Cupp.

GENERAL JOURNAL PAGE 1

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx June	1	Accounts Receivable		3 0 0 0 00		1
2			Supplies		2 0 0 00		2
3			Delivery Equipment		10 0 0 0 00		3
4			Automobiles		18 0 0 0 00		4
5			Delivery Trucks		16 0 0 0 00		5
6			Office Equipment		6 0 0 0 00		6
7			Accounts Payable			3 4 0 0 00	7
8			M.A. Donna, Capital			49 8 0 0 00	8
9			Memo No. 1				9
10		1	Accounts Receivable		2 0 0 0 00		10
11			Supplies		5 0 0 00		11
12			Delivery Equipment		8 0 0 0 00		12
13			Automobiles		8 0 0 0 00		13
14			Delivery Trucks		7 0 0 0 00		14
15			Office Equipment		4 0 0 0 00		15
16			Building		25 0 0 0 00		16
17			Accounts Payable			5 2 0 0 00	17
18			Stanley Cupp, Capital			49 3 0 0 00	18
19			Memo No. 2				19
20							20
21							21

Instruction 2: Record the entry on page 2 of the cash receipts journal to show the additional cash invested by one of the partners.

CASH RECEIPTS JOURNAL PAGE 2

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL CREDIT	2 ACCOUNTS RECEIVABLE CREDIT	3 SALES CREDIT	4 SALES DISCOUNT DEBIT	5 CASH DEBIT	
1	19xx June	1	Stanley Cupp, Capital			5 0 0 00				5 0 0 00	1
2											2
3											3
4											4

Enrichment Activity B

Complete a partnership agreement assuming that your best friend and you decide to begin a small business during the summer. Fill in the agreement as of July 1, 19xx.

Answers will vary. The following is a sample answer.

Partnership Agreement

This contract is made and signed on the *1st* day of *July* in the year *19xx*.

1. The name of the business will be *Wood's Lawn Service* and is to be located at *42 Carry Drive*.

2. The partners in the business will be

Phil Stevens	*42 Carry Drive*
(name)	(address)
and	
Henry Phillips	*67 Knots Road*
(name)	(address)

who agree to enter into said business for a period of *two months*.

3. The responsibilities of the partners will be as follows:
Phil – drive and maintain lawn equipment, cut grass, fertilize, water
Henry – order supplies, pay bills, call clients, promote business, cut grass and shrubs.

4. Any cheques issued must be signed by *Phil Stevens and Henry Phillips.*

5. Division of all profits and losses, payment of salaries, and the matter of drawings will be *50:50 (shared equally).*

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6. If one of the partners becomes disabled, *then the partnership agreement ceases to exist.*

7. Upon the death or withdrawal of one of the partners, *the partnership agreement ceases to exist.*

8. When the business is dissolved by mutual agreement, the method of liquidation will follow *whereby all equipment will be sold, bills paid, and the remaining amount divided equally between partners.*

Signed

Phil Stevens	sealed	*July 1, 19xx*
(name)		(date)
Henry Phillips	sealed	*July 1, 19xx*
(name)		(date)

Section 1 Assignment

The assignment and answers for Section 1 are given on the following pages. A suggested mark distribution follows:

Part A	4	marks
B	4	marks
C	4	marks
D	6	marks
Total	18	marks

The marks are also given in the left margin beside each question.

Section 1 Assignment A

Answer the following questions.

4

1. What is a partnership?

   A partnership is a type of business organization in which two or more people combine their resources and skills in a business venture.

2. What is a partnership agreement?

   A partnership agreement is a written agreement stating the various conditions under which a partnership is to operate.

3. List six provisions generally found in a partnership agreement.

   The following are provisions that may be found in a partnership agreement:

   - *the names of the partners*
   - *the nature and scope of the business in which the partners are involved*
   - *the name and location of the business*
   - *the investment of each partner*
   - *the duties and limitations of each partner*
   - *the provision for distribution of profits or losses*
   - *the provision for withdrawals of profits or investments*
   - *the duration of the partnership*
   - *the dissolution of the partnership*

4. When might a partnership be terminated?

A partnership might be terminated because of

- *the withdrawal of a partner*
- *the death of a partner*
- *the failure of the business*
- *the mutual agreement by the partners to end the relationship*

Section 1 Assignment B

4

1. B. Swanson and A. Ross were equal partners in an accounting firm. The equity of each partner amounted to $60 000.00. The partners agreed to admit M. Oberg as a junior partner, but no extra capital was to be brought into the firm. Mr. Oberg is to have one-third interest in the firm by purchasing privately, one third of both Swanson's and Ross's equities.

   Instruction: Record the admission of M. Oberg as a junior partner on page 1 of the general journal as of May 1, 19xx.

GENERAL JOURNAL PAGE 1

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx May	1	B. Swanson, Capital		20 0 0 0 00		1
2			A. Ross, Capital		20 0 0 0 00		2
3			M. Oberg, Capital			40 0 0 0 00	3
4			To record M. Oberg's interest in the business				4
5							5
6							6

2. B. Kotyk, V. Olson, and B. Sparkes were equal partners in a retail business. The equity of each partner amounted to $45 000.00. On October 1, 19xx, C. Bosch is admitted as a partner with a one-quarter interest if he is to invest $50 000.00.

Instructions:

a. Record the goodwill on page 2 of the general journal.

GENERAL JOURNAL PAGE 2

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Oct.	1	Goodwill		15 000 00		1
2			B. Kotyk, Capital			5 000 00	2
3			V. Olson, Capital			5 000 00	3
4			B. Sparkes, Capital			5 000 00	4
5							5
6							6

b. Record C. Bosch's cash investment on page 2 of the cash receipts journal.

CASH RECEIPTS JOURNAL PAGE 2

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL CREDIT	2 ACCOUNTS RECEIVABLE CREDIT	3 SALES CREDIT	4 SALES DISCOUNT DEBIT	5 CASH DEBIT	
1	19xx Oct.	1	C. Bosch, Capital			50 000 00				50 000 00	1
2											2
3											3
4											4

c. What is the equity of each partner when goodwill is recognized?

When goodwill is recognized, the equity of each partner is $50 000.00.

d. What is the total goodwill?

The total goodwill is $15 000.00.

Section 1 Assignment C

4

V. Spoulos, C. Stewart, and M. Rodriguez invested equal amounts to buy a restaurant that had been a losing proposition despite having good and steady patrons and a favourable location. The three expected to reap considerable profits by reducing the overhead. After operating at a profit for two years, the partners asked Mr. P. Raymond to join as an equal partner because they had difficulty retaining the services of a first-class chef.

The partners had an equity of $40 000.00 each, but Mr. Raymond was admitted as an equal partner with an investment of only $36 000.00.

Instruction 1: On June 1, 19xx, record the journal entry required to increase Mr. Raymond's equity on page 3 of a general journal.

GENERAL JOURNAL PAGE 3

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx June	1	V. Spoulos, Capital		10 000 00		1
2			C. Stewart, Capital		10 000 00		2
3			M. Rodriguez, Capital		10 000 00		3
4			P. Raymond, Capital			30 000 00	4
5							5
6							6

Instruction 2: Record P. Raymond's cash investment into the partnership on June 1, 19xx, using page 1 of the cash receipts journal.

CASH RECEIPTS JOURNAL PAGE 1

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL CREDIT	2 ACCOUNTS RECEIVABLE CREDIT	3 SALES CREDIT	4 SALES DISCOUNT DEBIT	5 CASH DEBIT	
1	19xx June	1	P. Raymond, Capital			36 000 00				36 000 00	1
2											2
3											3
4											4

Section 1 Assignment D

6 On July 3, 19xx, James Telford and Bertha McMullin formed a partnership combining two real estate offices. The balance sheets of both businesses were revalued and are shown next.

James Telford
Balance Sheet
June 30, 19xx

Assets		
Current Assets		
Cash	7 1 0 0 00	
Accounts Receivable	8 4 0 0 00	
Prepaid Insurance	1 4 0 0 00	
Supplies	1 5 0 0 00	
Total Current Assets		18 4 0 0 00
Fixed Assets		
Office Equipment	10 6 0 0 00	
Automobile	12 0 0 0 00	
Total Fixed Assets		22 6 0 0 00
Total Assets		41 0 0 0 00
Liabilities		
Current Liabilities		
Accounts Payable	2 5 0 0 00	
Bank Loan	10 5 0 0 00	
Total Current Liabilities		13 0 0 0 00
Shareholders' Equity		
J. Telford, Capital		28 0 0 0 00
Total Liabilities and Shareholders' Equity		41 0 0 0 00

Bertha McMullin
Balance Sheet
June 30, 19xx

Assets		
Current Assets		
Cash	5 9 0 0 00	
Accounts Receivable	8 2 0 0 00	
Prepaid Insurance	1 5 0 0 00	
Supplies	1 3 0 0 00	
Total Current Assets		16 9 0 0 00
Fixed Assets		
Office Equipment	11 3 0 0 00	
Automobile	10 6 0 0 00	
Total Fixed Assets		21 9 0 0 00
Total Assets		38 8 0 0 00
Liabilities		
Current Liabilities		
Accounts Payable	3 2 0 0 00	
Bank Loan	11 3 0 0 00	
Total Current Liabilities		14 5 0 0 00
Shareholders' Equity		
B. McMullin, Capital		24 3 0 0 00
Total Liabilities and Shareholders' Equity		38 8 0 0 00

Instruction 1: Record, on page 1 of the general journal, the opening entry for the new partnership of McMullin and Telford. Use Memo No. 1 to record the opening entry for Telford and Memo No. 2 for McMullin.

GENERAL JOURNAL PAGE 1

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx July	3	Cash		7 1 0 0 00		1
2			Accounts Receivable		8 4 0 0 00		2
3			Prepaid Insurance		1 4 0 0 00		3
4			Supplies		1 5 0 0 00		4
5			Office Equipment		10 6 0 0 00		5
6			Automobile		12 0 0 0 00		6
7			Accounts Payable			2 5 0 0 00	7
8			Bank Loan			10 5 0 0 00	8
9			J. Telford, Capital			28 0 0 0 00	9
10			Memo No. 1				10
11		3	Cash		5 9 0 0 00		11
12			Accounts Receivable		8 2 0 0 00		12
13			Prepaid Insurance		1 5 0 0 00		13
14			Supplies		1 3 0 0 00		14
15			Office Equipment		11 3 0 0 00		15
16			Automobile		10 6 0 0 00		16
17			Accounts Payable			3 2 0 0 00	17
18			Bank Loan			11 3 0 0 00	18
19			B. McMullin, Capital			24 3 0 0 00	19
20			Memo No. 2				20
21							21
22							22

Instruction 2: Record the journal entry on page 1 of the cash receipts journal if B. McMullin's equity is to equal that of Mr. Telford's.

CASH RECEIPTS JOURNAL PAGE 1

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL CREDIT	2 ACCOUNTS RECEIVABLE CREDIT	3 SALES CREDIT	4 SALES DISCOUNT DEBIT	5 CASH DEBIT	
1	19xx July	3	B. McMullin, Capital			3 7 0 0 00				3 7 0 0 00	1
2											2
3											3
4											4

Section 1: Total Marks 18

Section 2: Accounting for Partnerships

The basic goals of this section are to ensure that students

- learn how to calculate the ways in which profits are divided in a partnership
- learn how to journalize the profits and losses in a partnership
- learn how to construct the worksheet and financial statements for a partnership
- learn how to journalize adjusting and closing entries

Possible Activities

- Develop, with the students, various methods of dividing up partnership profit or loss.
- Discuss the reasons why a partnership may be terminated.
- Use the overhead projector to illustrate the accounting entries required to liquidate a partnership.
- Show the students how the worksheet and financial statements differ between a sole proprietorship and a partnership.

Section 2 Activity 1

1. The partnership of Wells, Smart, and Noru Ltd. owned by O. Wells, T. Smart, and R. Noru had a net income of $45 000.00 in 19xx.

   Instruction 1: On page 2 of a general journal, record the entry to show equal distribution of net income to the partners on December 31, 19xx.

GENERAL JOURNAL PAGE 2

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Dec.	31	Income Summary		45 0 0 0 00		1
2			O. Wells, Capital			15 0 0 0 00	2
3			T. Smart, Capital			15 0 0 0 00	3
4			R. Noru, Capital			15 0 0 0 00	4
5							5

Instruction 2: Record the entry on page 3 of a general journal to show a fixed ratio distribution of $\frac{2}{9}$ to O. Wells, $\frac{4}{9}$ to T. Smart, and $\frac{3}{9}$ to R. Noru on December 31, 19xx.

GENERAL JOURNAL PAGE 3

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	Dec. 19xx	31	Income Summary		45 0 0 0 00		1
2			O. Wells, Capital			10 0 0 0 00	2
3			T. Smart, Capital			20 0 0 0 00	3
4			R. Noru, Capital			15 0 0 0 00	4
5							5

Instruction 3: Prepare a distribution of net income statement using the fixed ratio figures from question 2.

Wells, Smart, and Noru
Distribution of Net Income Statement
For Year Ended December 31, 19xx

O. Wells		
2/9 of Net Income (45 000 × 2/9)	10 0 0 0 00	
T. Smart		
4/9 of Net Income (45 000 × 4/9)	20 0 0 0 00	
R. Noru		
3/9 of Net Income (45 000 × 3/9)	15 0 0 0 00	
Total Net Income		45 0 0 0 00

Instruction 4: Record the journal entry for the same ratio split if a loss of $36 000.00 was incurred in 19yy.

GENERAL JOURNAL PAGE 18

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	Dec. 19xx	31	O. Wells, Capital		8 0 0 0 00		1
2			T. Smart, Capital		16 0 0 0 00		2
3			R. Noru, Capital		12 0 0 0 00		3
4			Income Summary			36 0 0 0 00	4
5							5

2. J. Duncan and B. Elliott operate a business in which profits and losses are divided according to a ratio of their capital investments. J. Duncan's capital investment was $30 000.00 and B. Elliott's investment was $20 000.00.

   The profit for the year was $65 000.00.

   Instruction: On December 31, record the journal entry distributing the net income to the partners' capital accounts.

GENERAL JOURNAL PAGE 4

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Dec.	31	Income Summary		65 0 0 0 00		1
2			J. Duncan, Capital			39 0 0 0 00	2
3			B. Elliott, Capital			26 0 0 0 00	3
4							4
5							5

3. The partnership of Gendre, Harty, and Libby is a retail business with the following investments: B. Gendre, $40 000.00; W. Harty, $45 000.00; A. Libby, $55 000.00. The partnership agreement states: that each partner is to receive 10% on the partner's investment, and the remaining profit is to be divided equally. The profit for the year ended Dec. 31, 19xx, is $92 000.00.

   Instruction 1: Prepare a distribution of net income statement.

Gendre, Harty, and Libby
Distribution of Net Income Statement
For Year Ended December 31, 19xx

B. Gendre		
10% Interest on Investments	4 0 0 0 00	
1/3 of Remaining Net Income	26 0 0 0 00	
Total Share of Net Income		30 0 0 0 00
W. Harty		
10% Interest on Investments	4 5 0 0 00	
1/3 of Remaining Net Income	26 0 0 0 00	
Total Share of Net Income		30 5 0 0 00
A. Libby		
10% Interest on Investments	5 5 0 0 00	
1/3 of Remaining Net Income	26 0 0 0 00	
Total Share of Net Income		31 5 0 0 00
Total Net Income		92 0 0 0 00

Instruction 2: On the general journal, record the entry closing the net income to each partner's capital account.

GENERAL JOURNAL PAGE 2

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Dec.	31	Income Summary		92 0 0 0 00		1
2			B. Gendre, Capital			30 0 0 0 00	2
3			W. Harty, Capital			30 5 0 0 00	3
4			A. Libby, Capital			31 5 0 0 00	4
5							5

4. On December 31, 19xx, the investments in the partnership of Bissonette, Hoverson, and Tracey are D. Bissonette, $40 000.00; B. Hoverson, $55 000.00; and E. Tracey, $60 000.00. The partnership agreement states that each partner's yearly salary is to be E. Tracey, $24 000.00 per year; B. Hoverson, $22 800.00; and D. Bissonette, $20 400.00.

   The remaining net income or loss is to be divided equally. The net profit for the year is $76 700.00.

   Instruction: Prepare a distribution of net income statement to record details of the income distribution.

Bissonette, Hoverson, and Tracey
Distribution of Net Income Statement
For Year Ended December 31, 19xx

D. Bissonette		
Salary for the Year	20 4 0 0 00	
1/3 of Remaining Net Income	3 1 6 6 66	
Total Share of Net Income		23 5 6 6 66
B. Hoverson		
Salary for the Year	22 8 0 0 00	
1/3 of Remaining Net Income	3 1 6 6 67	
Total Share of Net Income		25 9 6 6 67
E. Tracey		
Salary for the Year	24 0 0 0 00	
1/3 of Remaining Net Income	3 1 6 6 67	
Total Share of Net Income		27 1 6 6 67
Total Net Income		76 7 0 0 00

5. Refer to question 4, and add the following to the partnerships of Bissonette, Hoverson, and Tracey. The partnership states that in addition to their stated salaries, each partner is to receive interest of 10% on their investments.

Instruction 1: Prepare a distribution of net income statement where interest is allowed on capital as well as salaries.

Bissonette, Hoverson and Tracey
Distribution of Net Income Statement
For Year Ended December 31, 19xx

D. Bissonette			
Interest on Investment	4 0 0 0 00		
Salary for the Year	20 4 0 0 00		
Total		24 4 0 0 00	
1/3 of Deficit		2 0 0 0 00	
Total Share of Net Income			22 4 0 0 00
B. Hoverson			
Interest on Investment	5 5 0 0 00		
Salary for the Year	22 8 0 0 00		
Total		28 3 0 0 00	
1/3 of Deficit		2 0 0 0 00	
Total Share of Net Income			26 3 0 0 00
E. Tracey			
Interest on Investment	6 0 0 0 00		
Salary for the Year	24 0 0 0 00		
Total		30 0 0 0 00	
1/3 of Deficit		2 0 0 0 00	
Total Share of Net Income			28 0 0 0 00
Total Net Income			76 7 0 0 00

Instruction 2: In the general journal, record the distribution of the net income to the partners' capital accounts.

GENERAL JOURNAL PAGE 2

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	*19xx Dec.*	*31*	*Income Summary*		76 7 0 0 00		1
2			*D. Bissonette, Capital*			22 4 0 0 00	2
3			*B. Hoverson, Capital*			26 3 0 0 00	3
4			*E. Tracey, Capital*			28 0 0 0 00	4
5							5

6. From the previous entries, fill in amounts on the trial balance. This becomes the new trial balance.

E & B Consultants

Trial Balance

August 15, 19xx

ACCOUNT TITLE	NO.	DEBIT	CREDIT
Cash		15 6 0 0 00	
Gain or Loss on Realization		2 4 0 0 00	
J. Sh, Capital			12 0 0 0 00
D. Bee, Capital			6 0 0 0 00
		18 0 0 0 00	18 0 0 0 00

7. The following trial balance lists accounts after the assets have been sold, liabilities have been paid, and the loss on the sale of assets has been recorded.

Batt & Joe Automotives

Trial Balance

September 30, 19xx

ACCOUNT TITLE	NO.	DEBIT	CREDIT
Cash		12 8 0 0 00	
Harvey Batt, Capital			5 8 0 0 00
Phillip Joe, Capital			7 0 0 0 00
		12 8 0 0 00	12 8 0 0 00

Instruction: Record the final disposition of cash to the partners on page 6 of the general journal.

GENERAL JOURNAL PAGE 6

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Sept.	30	*Harvey Batt, Capital*		5 8 0 0 00		1
2			*Phillip Joe, Capital*		7 0 0 0 00		2
3			*Cash*			12 8 0 0 00	3
4							4
5							5

Section 2 Activity 2

1. A partial worksheet for a small business is shown. Prepare a capital statement from the information given.

Bob and Doug Bottle's Exchange
Worksheet
For Year Ended December 31, 19xx

	ACCOUNT TITLE	ACCOUNT NUMBER	1 BALANCE SHEET DEBIT	2 BALANCE SHEET CREDIT
1	Bob Bottle, Capital			8 0 0 0 00
2	Bob Bottle, Drawings		15 0 0 0 00	
3	Doug Bottle, Capital			10 0 0 0 00
4	Doug Bottle, Drawings		16 0 0 0 00	
5	Net Income			36 0 0 0 00
6				
7				

Additional Information

- The partnership agreement states that all profits are to be shared equally.
- There have been no changes in the capital accounts this year.

Bob and Doug Bottle's Exchange
Capital Statement
For Year Ended December 31, 19xx

Bob Bottle		
Capital, January 1, 19xx		8 0 0 0 00
Share of Net Income	18 0 0 0 00	
Less Drawings	15 0 0 0 00	
Net Increase in Capital		3 0 0 0 00
Capital, December 31, 19xx		11 0 0 0 00
Doug Bottle		
Capital, January 1, 19xx		10 0 0 0 00
Share of Net Income	18 0 0 0 00	
Less Drawings	16 0 0 0 00	
Net Increase in Capital		2 0 0 0 00
Capital, December 31, 19xx		12 0 0 0 00
Total Capital, December 31, 19xx		23 0 0 0 00

2. The trial balance portion of the worksheet for Naglis and Scheller has been completed.

   Additional information available on December 31, 19xx:

   - Merchandise Inventory is $17 250.70.
   - Allowance for Doubtful Accounts has to be increased by $210.00.
   - Supplies inventory is $48.00.
   - Insurance policies are worth $85.00.
   - The rate of depreciation for the Equipment is 10% of its original value.

   Instruction 1: On the worksheet provided, prepare the adjustments necessary at year end.

Naglis and Scheller

Worksheet

For Year Ended December 31, 19xx

ACCOUNT TITLES	ACCT. NO.	TRIAL BALANCE DEBIT	TRIAL BALANCE CREDIT	ADJUSTMENTS DEBIT	ADJUSTMENTS CREDIT	INCOME STATEMENT DEBIT	INCOME STATEMENT CREDIT	BALANCE SHEET DEBIT	BALANCE SHEET CREDIT
Cash	110	28034.14							
Accounts Receivable	120	3240.66							
Allowance for Doubtful Accounts	120.1		387.31		(c) 210.00				
Merchandise Inventory	125	193960.70		(b) 17250.70	(a) 193960.70				
Supplies	130	2930.00			(d) 2450.00				
Prepaid Insurance	132	5056.60			(e) 4206.60				
Equipment	140	2411.49							
Accumulated Depr. - Equipment	140.1		618.80		(f) 2411.15				
Notes Payable	211		10000.00						
Accounts Payable	213		1683.45						
Employees Income Tax Payable	215								
A. Naglis, Capital	310		150000.00						
A. Naglis, Drawings	311	4961.55							
T. Scheller, Capital	320		110000.00						
T. Scheller, Drawings	321	5016.00							
Sales	410		786610.10						
Sales Returns & Allowances	410.1	961.18							
Purchases	510	406507.07							
Purchases Returns & Allowances	510.1		5082.82						
Delivery Expense	610	1498.04							
Miscellaneous Expense	611	707.05							
Rent Expense	612	2900.00							
Salary Expense	613	23500.00							
Income Summary	614			(a) 193960.70	(b) 17250.70				
Depreciation Expense - Equipment	615			(f) 2411.15					
Insurance Expense	616			(e) 4206.60					
Supplies Expense	617			(d) 2450.00					
Bad Debts Expense	618			(c) 2100.00					
		1085948	1085948	37764.15	37764.15				

Instruction 2: Journalize the adjusting entries on page 14 of the general journal.

GENERAL JOURNAL PAGE 14

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1			*Adjusting Entries*				1
2	*Dec.* 19xx	*31*	*Income Summary*		*19 3 9 6 70*		2
3			*Merchandise Inventory*			*19 3 9 6 70*	3
4		*31*	*Merchandise Inventory*		*17 2 5 0 70*		4
5			*Income Summary*			*17 2 5 0 70*	5
6		*31*	*Bad Debts Expense*		*2 1 0 00*		6
7			*Allowance for Doubtful Accounts*			*2 1 0 00*	7
8		*31*	*Supplies Expense*		*2 4 0 00*		8
9			*Supplies*			*2 4 0 00*	9
10		*31*	*Insurance Expense*		*4 2 0 60*		10
11			*Prepaid Insurance*			*4 2 0 60*	11
12		*31*	*Depreciation Expense - Equipment*		*2 4 1 15*		12
13			*Accumulated Depreciation - Equipment*			*2 4 1 15*	13
14							14
15							15

Section 2 Follow-up Activities

Extra-help Activities

Extra-help Activity A

Please answer the following questions.

Worksheet

1. From where does the information for the trial balance come?

   The information from the trial balance comes from the balances in the ledger accounts in the general ledger.

2. Where do you get the information needed in order to make the adjusting entries on the worksheet?

   The information needed to make the adjusting entries is found in the following ways:

   - *taking inventories*
   - *evaluating insurance policies*
   - *checking accounts receivable for potential bad debts*
   - *assessing depreciation on building and equipment*

3. How does the worksheet help to calculate the net income?

   The worksheet totals the debits and credits in the Income Statement columns. The difference is the net income (loss).

4. What is the automatic check that assures your worksheet extensions are correct?

   The difference in the Income Statement section must be the same as the difference in the Balance Sheet section.

5. Why do you use the worksheet when making the closing entries in the general journal rather than looking at the balance in each revenue and expense account in the general ledger?

   The amounts are the same on the worksheet as in the accounts in the general ledger. It saves time to use the worksheet because the amounts are all in one place.

Income Statement

6. What are the differences in an income statement for a sole proprietorship and a partnership?

   There are no differences between an income statement for a sole proprietorship and one for a partnership.

7. Why do you not see salaries for partnerships on the income statement?

   Sole proprietorships and partnerships do not pay the owners' salaries. Any money or goods taken by the owners is a drawing from the business.

Distribution of Net Income Statement

8. How does the accountant/bookkeeper know how to divide the net income or loss between the partners?

   The partnership agreement usually states how the profits or losses are to be shared.

9. Why would you feel it is appropriate to pay a salary to a partner? Why do you place salary in the distribution of net income statement?

   A salary is remuneration (payment) to compensate an owner for time put into the business. Salary is placed in the distribution of net income statement because it is part of that income for the fiscal period.

10. Why would partnerships allow a percentage return on the capital in the business?

    Allowing a percentage return encourages partners to keep their investments in the business.

Capital Statement

11. Why would you look at the capital accounts in the general ledger when making up the capital statement?

    You look at the capital accounts to find out if there have been any changes in the capital accounts in the past fiscal period.

12. What information is taken directly from the worksheet and used in the capital statement?

    The amount of the drawings for each partner is taken directly from the worksheet and used in the capital statement.

13. Why must the distribution of net income statement be completed before preparing the capital statement?

    You must complete the distribution of net income statement first because you need to know the division of the profits or losses.

Balance Sheet

14. What financial statement is needed in order to prepare a balance sheet?

    The capital statement is needed to make up a balance sheet.

15. What is the main source of information for the balance sheet?

    The worksheet is the main source of information for the balance sheet.

Adjusting Entries

16. What is the source of the information for recording the adjusting entries in the general journal?

    The worksheet is the source of information when recording the adjusting entries.

17. Why must the accounts be adjusted?

    The accounts must be adjusted because the balances in the general ledger are incorrect.

Closing Entries

18. What is the source of the information for recording the closing entries in the general journal?

    The worksheet is the source of information when recording the closing entries in the general journal.

19. Which accounts are the closing entries closed to?

    The closing entries are closed to the partners' capital accounts.

20. In the Income Summary account, what is the balance (a debit or a credit balance) just before it is closed out?

    If there is a profit, the Income Summary account has a credit balance just before it is closed out. If there is a loss, it has a debit balance.

Post-Closing Trial Balance

21. What is the purpose of the post-closing trial balance?

    The purpose of the post-closing trial balance is to check for the accuracy of the posting of the adjusting and closing entries.

Extra-help Activity B

B. Abel, D. Baker, and C. Charley formed a partnership on January 2, 19xx. The partnership agreement states the following:

Salaries

Abel	– $40 000.00
Baker	– $20 000.00
Charley	– $50 000.00

Capital Accounts

Abel	– $100 000.00
Baker	– $110 000.00
Charley	– $ 90 000.00

Return on investment is 10% of capital accounts.

Sharing Ratio (3:2:1)

Abel	– Abel gets $\frac{3}{6}$ of the residue.
Baker	– Baker gets $\frac{2}{6}$ or $\frac{1}{3}$ of the residue.
Charley	– Charley gets $\frac{1}{6}$ of the residue.

Instruction: Show how much each partner will get if there is a profit of $104 000.00. Complete the chart.

	Abel	Baker	Charley	Total
Salaries	40 0 0 0 00	20 0 0 0 00	50 0 0 0 00	110 0 0 0 00
Return on Investment	10 0 0 0 00	11 0 0 0 00	9 0 0 0 00	30 0 0 0 00
Total	50 0 0 0 00	31 0 0 0 00	59 0 0 0 00	140 0 0 0 00
Calculated Loss	18 0 0 0 00	12 0 0 0 00	6 0 0 0 00	36 0 0 0 00
Share of Income	32 0 0 0 00	19 0 0 0 00	53 0 0 0 00	104 0 0 0 00

Enrichment Activities

Enrichment Activity A

The following balance sheet for the partnership of R. Romansky, R. Roney, and R. Romanoff was made immediately before liquidation.

The 3 R's
Balance Sheet
April 30, 19xx

Assets		
Cash		10 0 0 0 00
Merchandise		110 0 0 0 00
Total Assets		120 0 0 0 00
Liabilities		
Accounts Payable		40 0 0 0 00
Capital		
R. Romansky, Capital	10 0 0 0 00	
R. Roney, Capital	30 0 0 0 00	
R. Romanoff, Capital	40 0 0 0 00	
Total Capital		80 0 0 0 00
Total Liabilities and Capital		120 0 0 0 00

The income sharing ratio states they all share equally. The merchandise was sold for $80 000.00 cash. On page 23 of the general journal, record the following:

- the sale of the merchandise
- the payment of the liabilities
- the sharing of the loss on realization of the assets
- the final disbursements to the partners

GENERAL JOURNAL PAGE 23

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Apr.	30	Cash		80 0 0 0 00		1
2			Gain or Loss on Realization		30 0 0 0 00		2
3			Merchandise Inventory			110 0 0 0 00	3
4			To record sale of merchandise on liquidation				4
5		30	Accounts Payable		40 0 0 0 00		5
6			Cash			40 0 0 0 00	6
7			To record paying off all debts				7
8		30	R. Romansky, Capital		10 0 0 0 00		8
9			R. Rooney, Capital		10 0 0 0 00		9
10			R. Romanoff, Capital		10 0 0 0 00		10
11			Gain or Loss on Realization			30 0 0 0 00	11
12			To apportion loss on sale of business				12
13		30	R. Rooney, Capital		20 0 0 0 00		13
14			R. Romanoff, Capital		30 0 0 0 00		14
15			Cash			50 0 0 0 00	15
16			To record dispersal of cash on liquidation				16
17							17
18							18

Enrichment Activity B

Burns and Harris are partners in a hardware store. On December 31, 19xx, the Capital section of the general ledger looks like this.

General Ledger

ACCOUNT *T. Burns, Capital* ACCOUNT NO. *310*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	DR CR	BALANCE
Jan. 19xx	*1*	*Balance*	✓			*CR*	*120 0 0 0 00*

ACCOUNT *T. Burns, Drawings* ACCOUNT NO. *312*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	DR CR	BALANCE
Dec. 19xx	*31*	*Balance*	✓			*DR*	*40 6 0 0 00*

ACCOUNT *P. Harris, Capital* ACCOUNT NO. *313*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	DR CR	BALANCE
Jan. 19xx	*1*	*Balance*	✓			*CR*	*60 0 0 0 00*
June	*12*		*CR62*		*20 0 0 0 00*	*CR*	*80 0 0 0 00*

ACCOUNT *P. Harris, Drawings* ACCOUNT NO. *314*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	DR CR	BALANCE
Dec. 19xx	*31*	*Balance*	✓			*DR*	*30 8 0 0 00*

The partnership income statement shows a net income of $150 000.00 for this year.

The partnership agreement reads as follows: All net income or loss is to be shared according to the partners' investment.

Instruction 1: Prepare a distribution of net income statement for Burns and Harris.

Burns and Harris
Distribution of Net Income Statement
For Year Ended December 31, 19xx

T. Burns		
3/5 of Net Income	90 0 0 0 00	
P. Harris		
2/5 of Net Income	60 0 0 0 00	
Total Net Income		150 0 0 0 00

Instruction 2: Prepare a capital statement for the partnership on December 31, 19xx.

Burns and Harris
Capital Statement
For Year Ended December 31, 19xx

T. Burns		120 0 0 0 00	
Capital, January 1, 19xx			
Share of Net Income	90 0 0 0 00		
Less Withdrawals	40 6 0 0 00		
Net Increase in Capital		49 4 0 0 00	
Capital, December 31, 19xx			169 4 0 0 00
P. Harris			
Capital, January 1, 19xx		60 0 0 0 00	
Addition to Capital	20 0 0 0 00		
Share of Net Income	60 0 0 0 00		
Total Increases	80 0 0 0 00		
Less Withdrawals	30 8 0 0 00		
Net Increase in Capital		49 2 0 0 00	
Capital, December 31, 19xx			109 2 0 0 00
Total Capital			278 6 0 0 00

Instruction 3: Show the Capital section of the balance sheet.

Capital		
T. Burns, Capital	169 400 00	
P. Harris, Capital	109 200 00	
Total Capital		278 600 00

Instruction 4: Prepare the closing entries, on page 45 of the general journal, to transfer the net income and the drawings to the partners' capital accounts.

GENERAL JOURNAL PAGE 45

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1			*Closing Entries*				1
2	*Dec.* 19xx	31	*Income Summary*		150 000 00		2
3			*T. Burns, Capital*			90 000 00	3
4			*P. Harris, Capital*			60 000 00	4
5		31	*T. Burns, Capital*		40 600 00		5
6			*P. Harris, Capital*		30 800 00		6
7			*T. Burns, Drawings*			40 600 00	7
8			*P. Harris, Drawings*			30 800 00	8
9							9
10							10

Section 2 Assignment

The assignment and answers for Section 2 are given on the following pages. A suggested mark distribution follows:

Part A	4	marks
B	8	marks
C	20	marks
Total	32	marks

The marks are also given in the left margin beside each question.

Section 2 Assignment A

4

1. L. Crowe and R. Knapp operate a partnership where Crowe maintains the accounting records.

   The opening entry in the general journal shows the following debits and credits:

Cash	$45 000.00	
Equipment	60 000.00	
Furniture and Fixtures	25 000.00	
L. Crowe, Capital		$65 000.00
R. Knapp, Capital		65 000.00

   Instruction: Record the following entries in the general journal.

   - On April 15, 19xx, Knapp took merchandise out of stock for personal use. This merchandise cost the firm $200.00.
   - On April 30, 19xx, a monthly salary of $1 000.00 was paid to each partner.
   - On December 31, 19xx, Crowe reported a net profit of $34 000.00. (The net profit is to be shared equally.)

GENERAL JOURNAL PAGE 1

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Apr.	15	R. Knapp, Drawings		200 00		1
2			Purchases			200 00	2
3		30	L. Crowe, Drawings		1 000 00		3
4			R. Knapp, Drawings		1 000 00		4
5			Cash			2 000 00	5
6	Dec.	31	Income Summary		34 000 00		6
7			L. Crowe, Capital			17 000 00	7
8			R. Knapp, Capital			17 000 00	8
9							9
10							10

2. On December 31, 19xx, the partnership of Hill and Turner incurred a net loss of $24 000.00 from operations. According to the partnership agreement, Jill Turner is to receive $\frac{2}{3}$ of the profits or losses, and Aaron Hill is to receive $\frac{1}{3}$ of the profits and bear of the losses.

   Instruction: On page 4 of the general journal, record the net loss for the period and the distribution to the partners.

GENERAL JOURNAL PAGE 4

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Dec.	31	J. Turner, Capital		16 0 0 0 00		1
2			A. Hill, Capital		8 0 0 0 00		2
3			Income Summary			24 0 0 0 00	3
4							4
5							5
6							6

Section 2 Assignment B

8

1. On December 31, 19xx, the partnership of Nelms, Potak, and Quigley earned a net income of $74 000.00. The capital investments of the partners were as follows: Mike Nelms, $30 000.00; Joseph Potak, $35 000.00; and Ruth Quigley, $45 000.00. According to the partnership agreement, each partner is to receive 10% on their respective capital investments, and the remainder is to be divided equally.

Instructions:

a. Construct a distribution of net income statement.

Nelms, Potak, and Quigley
Distribution of Net Income Statement
For Year Ended December 31, 19xx

Mike Nelms		
Interest on Investment	3 0 0 0 00	
1/3 of Remaining Net Income	21 0 0 0 00	
Total Share of Net Income		24 0 0 0 00
Joseph Potak		
Interest on Investment	3 5 0 0 00	
1/3 of Remaining Net Income	21 0 0 0 00	
Total Share of Net Income		24 5 0 0 00
Ruth Quigley		
Interest on Investment	4 5 0 0 00	
1/3 of Remaining Net Income	21 0 0 0 00	
Total Share of Net Income		25 5 0 0 00
Total Net Income		74 0 0 0 00

b. In the general journal, page 2, record the distribution of net income to the partners.

GENERAL JOURNAL PAGE 2

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Dec.	31	Income Summary		74 0 0 0 00		1
2			M. Nelms, Capital			24 0 0 0 00	2
3			J. Potak, Capital			24 5 0 0 00	3
4			R. Quigley, Capital			25 5 0 0 00	4
5							5
6							6

2. The partnership of O'Brien and O'Hara earned a net profit of $36 500.00 for the fiscal period ended on December 31, 19xx. The capital investments were as follows: C. O'Brien, $40 000.00; and T. O'Hara, $45 000.00. The partnership agreement states that each partner is to receive 10% on their capital investments, and T. O'Hara is to receive a salary of $18 000.00 per year, and C. O'Brien is to receive $15 000.00 per year. The remainder of the profit or loss is to be disbursed as follows: O'Hara $\frac{3}{5}$, O'Brien $\frac{2}{5}$.

Instruction: Record the distribution of net income on page 3 of the general journal.

GENERAL JOURNAL PAGE 3

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Dec.	31	Income Summary		36 5 0 0 00		1
2			O'Brien, Capital			17 0 0 0 00	2
3			O'Hara, Capital			19 5 0 0 00	3
4							4
5							5
6							6

3. Hunt and MacEachren are partners in a real estate holding firm. They decide it is time to get out of the market at this moment to pursue other interests in life. Their trial balance before they sell the assets is shown.

H & M Holdings

Trial Balance

July 15, 19xx

ACCOUNT TITLE	NO.	DEBIT	CREDIT
Cash		40 0 0 0 00	
Land and Buildings		250 0 0 0 00	
Office Supplies, Furniture and Fixtures		15 0 0 0 00	
Loans Payable			210 0 0 0 00
F. Hunt, Capital			55 0 0 0 00
P. MacEachren, Capital			40 0 0 0 00
		310 0 0 0 00	310 0 0 0 00

Instruction: Record the entries for the following four transactions in the general journal provided.

- Sold office and contents to a new business called Sept Enterprises for $13 000.00.
- Sold land and buildings to a local land dealer, Olympic Trust, for $300 000.00.
- Paid off all loans.
- Paid remaining cash to partners.

GENERAL JOURNAL PAGE 5

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx July	15	Cash		13 0 0 0 00		1
2			Gain or Loss on Realization		2 0 0 0 00		2
3			Office Supplies, Furniture and Fixtures			15 0 0 0 00	3
4			To record the sale of office supplies, etc. to Sept				4
5			Enterprises				5
6		15	Cash		300 0 0 0 00		6
7			Gain or Loss on Realization			50 0 0 0 00	7
8			Land and Buildings			250 0 0 0 00	8
9			To record the sale of assets to Olympic Trust				9
10		15	Loans Payable		210 0 0 0 00		10
11			Cash			210 0 0 0 00	11
12			Payment of loans				12
13		15	Gain or Loss on Realization		48 0 0 0 00		13
14			F. Hunt, Capital			24 0 0 0 00	14
15			P. MacEachren, Capital			24 0 0 0 00	15
16			To record the division of the gain made on the				16
17			disposal of the assets				17
18		15	F. Hunt, Capital		79 0 0 0 00		18
19			P. MacEachren, Capital		64 0 0 0 00		19
20			Cash			143 0 0 0 00	20
21			To record the payment to the partners				21
22							22
23							23

Section 2 Assignment C

20

The following is the trial balance for the partnership of Haywood and Parrish.

Haywood and Parrish

Trial Balance

December 31, 19xx

ACCOUNT TITLE	NO.	DEBIT	CREDIT
Cash	111	17 6 4 8 50	
Petty Cash	112	2 0 0 00	
Interest Receivable	113	-0-	
Accounts Receivable	114	16 8 7 0 75	
Allowance for Doubtful Accounts	114.1		8 5 0 71
Notes Receivable	115	10 7 8 0 00	
Merchandise Inventory	116	45 3 5 0 00	
Supplies	117	1 7 6 0 20	
Prepaid Insurance	118	1 4 5 5 00	
Equipment	121	37 2 2 5 00	
Accumulated Depreciation - Equipment	121.1		8 5 2 2 00
Accounts Payable	211		12 1 4 2 00
Notes Payable	212		3 5 1 7 00
Employees Income Tax Payable	213		1 2 1 4 07
Canada Pension Plan Payable	214		1 0 8 02
Unemployment Insurance Payable	215		1 0 2 09
Interest Payable	216		-0-
J. Haywood, Capital	311		37 4 2 8 56
J. Haywood, Drawings	312	9 1 6 0 00	
W. Parrish, Capital	313		36 2 6 1 10
W. Parrish, Drawings	314	8 2 5 0 00	
Income Summary	315	-0-	-0-
Sales	411		389 7 1 1 50
Sales Returns and Allowances	411.1	1 7 6 2 00	
Purchases	511	256 0 9 0 40	
Purchases Returns and Allowances	511.1		3 7 6 2 00
Advertising Expense	611	2 5 4 8 00	
Delivery Expense	612	4 8 5 4 00	
Miscellaneous Selling Expense	613	3 0 6 25	
Sales Salary Expense	614	47 9 5 6 00	
Bad Debts Expense	621	-0-	
Depreciation Expense - Equipment	622	-0-	
Insurance Expense	623	-0-	
Miscellaneous Administrative Expense	624	3 1 9 0 00	
Payroll Taxes Expense	625	5 1 3 2 00	
Rent Expense	626	10 8 0 0 00	
Administrative Salary Expense	627	12 2 4 2 55	
Supplies Expense	628	-0-	
Interest Income	711		4 6 5 00
Interest Expense	811	5 0 3 40	
		494 0 8 4 05	494 0 8 4 05

Instruction 1: Complete the worksheet for the partnership. The additional data follows:

- Interest earned on Notes Receivable, but not yet received, is $14.12.
- The Bad Debts Expense is $65.30.
- Merchandise Inventory is $42 920.00.
- Supplies inventory is $715.60.
- The value of insurance policies on hand is $971.50.
- Additional depreciation on equipment is $1 980.50.
- Interest owed on Notes Payable, but not paid, is $68.90.

Haywood and Parrish

Worksheet

For Year Ended December 31, 19xx

ACCOUNT TITLES	ACCT. NO.	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111	17 6 4 8 50						17 6 4 8 50	
Petty Cash	112	2 0 0 00						2 0 0 00	
Interest Receivable	113			(a) 1 4 12				1 4 12	
Accounts Receivable	114	16 8 7 0 75						16 8 7 0 75	
Allowance for Doubtful Accounts	114.1		8 5 0 71		(b) 6 5 30				9 1 6 01
Notes Receivable	115	10 7 8 0 00						10 7 8 0 00	
Merchandise Inventory	116	45 3 5 0 00		(c) 42 9 2 0 00	(d) 45 3 5 0 00			42 9 2 0 00	
Supplies	117	1 7 6 0 20			(e) 1 0 4 4 60			7 1 5 60	
Prepaid Insurance	118	1 4 5 5 00			(f) 4 8 3 50			9 7 1 50	
Equipment	121	37 2 2 5 00						37 2 2 5 00	
Accumulated Depr. - Equipment	121.1		8 5 2 2 00		(g) 1 9 8 0 50				10 5 0 2 50
Accounts Payable	211		12 1 4 2 00						12 1 4 2 00
Notes Payable	212		3 5 1 7 00						3 5 1 7 00
Employees Income Tax Payable	213		1 2 1 4 07						1 2 1 4 07
Canada Pension Plan Payable	214		1 0 8 02						1 0 8 02
Unemployment Insurance Payable	215		1 0 2 09						1 0 2 09
Interest Payable	216				(h) 6 8 90				6 8 90
J. Haywood, Capital	311		37 4 2 8 56						37 4 2 8 56
J. Haywood, Drawings	312	9 1 6 0 00						9 1 6 0 00	
W. Parrish, Capital	313		36 2 6 1 10						36 2 6 1 10
W. Parrish, Drawings	314	8 2 5 0 00						8 2 5 0 00	
Income Summary	315			(d) 45 3 5 0 00	(c) 42 9 2 0 00	45 3 5 0 00	42 9 2 0 00		
Sales	411		389 7 1 1 50				389 7 1 1 50		
Sales Returns and Allowances	411.1	1 7 6 2 00				1 7 6 2 00			
Purchases	511	256 0 9 0 40				256 0 9 0 40			

Haywood and Parrish

Worksheet (continued)

For Year Ended December 31, 19xx

ACCOUNT TITLES	ACCT. NO.	TRIAL BALANCE DEBIT	TRIAL BALANCE CREDIT	ADJUSTMENTS DEBIT	ADJUSTMENTS CREDIT	INCOME STATEMENT DEBIT	INCOME STATEMENT CREDIT	BALANCE SHEET DEBIT	BALANCE SHEET CREDIT
Purchases Returns and Allowances	511.1		3 7 6 2 00				3 7 6 2 00		
Advertising Expense	611	2 5 4 8 00				2 5 4 8 00			
Delivery Expense	612	4 8 5 4 00				4 8 5 4 00			
Miscellaneous Selling Expense	613	3 0 6 25				3 0 6 25			
Sales Salary Expense	614	47 9 5 6 00				47 9 5 6 00			
Bad Debts Expense	621			(b) 6 5 30		6 5 30			
Depreciation Expense - Equipment	622			(g) 1 9 8 0 50		1 9 8 0 50			
Insurance Expense	623			(f) 4 8 3 50		4 8 3 50			
Miscellaneous Administrative Exp.	624	3 1 9 0 00				3 1 9 0 00			
Payroll Taxes Expense	625	5 1 3 2 00				5 1 3 2 00			
Rent Expense	626	10 8 0 0 00				10 8 0 0 00			
Administrative Salary Expense	627	12 2 4 2 55				12 2 4 2 55			
Supplies Expense	628			(e) 1 0 4 4 60		1 0 4 4 60			
Income Expense	711		4 6 5 00		(a) 1 4 12		4 7 9 12		
Interest Expense	811	5 0 3 40		(h) 6 8 90		5 7 2 30			
		494 0 8 4 05	494 0 8 4 05	91 9 2 6 92	91 9 2 6 92	394 3 7 7 40	436 8 7 2 62	144 7 5 5 47	102 2 6 0 25
Net Income						42 4 9 5 22			42 4 9 5 22
						436 8 7 2 62	436 8 7 2 62	144 7 5 5 47	144 7 5 5 47

Instruction 2: Prepare an income statement for Haywood and Parrish.

Haywood and Parrish
Income Statement
For Year Ended December 31, 19xx

Operating Revenue			
Sales		389 7 1 1 50	
Less: Sales Returns and Allowances		1 7 6 2 00	
Net Sales			387 9 4 9 50
Cost of Merchandise Sold			
Merchandise Inventory, January 1, 19xx		45 3 5 0 00	
Purchases	256 0 9 0 40		
Less: Purchases Returns and Allowances	3 7 6 2 00		
Net Purchases		252 3 2 8 40	
Total Cost of Merchandise Available for Sale		297 6 7 8 40	
Less: Merchandise Inventory, December 31, 19xx		42 9 2 0 00	
Cost of Merchandise Sold			254 7 5 8 40
Gross Profit on Operations			133 1 9 1 10
Operating Expenses			
Selling Expenses			
Advertising Expense	2 5 4 8 00		
Delivery Expense	4 8 5 4 00		
Miscellaneous Selling Expense	3 0 6 25		
Sales Salary Expense	47 9 5 6 00		
Total Selling Expenses		55 6 6 4 25	
Administrative Expenses			
Bad Debts Expense	6 5 30		
Depreciation Expense - Equipment	1 9 8 0 50		
Insurance Expense	4 8 3 50		
Miscellaneous Administrative Expense	3 1 9 0 00		
Payroll Taxes Expense	5 1 3 2 00		
Rent Expense	10 8 0 0 00		
Supplies Expense	1 0 4 4 60		
Administrative Salary Expense	12 2 4 2 55		
Total Administrative Expenses		34 9 3 8 45	
Total Operating Expenses			90 6 0 2 70
Income from Operations			42 5 8 8 40
Other Revenue			
Interest Income		4 7 9 12	
Other Expenses			
Interest Expense		5 7 2 30	
Net Deductions			9 3 18
Net Income			42 4 9 5 22

Instruction 3: Prepare a capital statement for Haywood and Parrish.

Haywood and Parrish
Capital Statement
For Year Ended December 31, 19xx

J. Haywood			
Capital, January 1, 19xx		37 4 2 8 56	
Share of Net Income	21 5 4 7 61		
Less: Withdrawals	9 1 6 0 00		
Net Increase in Capital		12 3 8 7 61	
Present Capital			49 8 1 6 17
W. Parrish			
Capital, January 1, 19xx		36 2 6 1 10	
Share of Net Income	20 9 4 7 61		
Less: Withdrawals	8 2 5 0 00		
Net Increase in Capital		12 6 9 7 61	
Present Capital			48 9 5 8 71
Total Capital, December 31, 19xx			98 7 7 4 88

Instruction 4: Prepare a distribution of net income statement. James Haywood is to be allowed a salary of $950.00 per month, and Bill Parrish is to be allowed a salary of $900.00 per month, with the remaining income or loss to be shared equally. No additional investments have been made during the year. Remember to compute salaries for one year.

Haywood and Parrish
Distribution of Net Income Statement
For Year Ended December 31, 19xx

J. Haywood		
Salary for the Year	11 4 0 0 00	
1/2 of Remaining Net Income	10 1 4 7 61	
Total Share of Net Income		21 5 4 7 61
W. Parrish		
Salary for the Year	10 8 0 0 00	
1/2 of Remaining Net Income	10 1 4 7 61	
Total Share of Net Income		20 9 4 7 61
Total Net Income		42 4 9 5 22

Instruction 5: Prepare a balance sheet for Haywood and Parrish.

Haywood and Parrish
Balance Sheet
December 31, 19xx

Current Assets		
Cash	17 6 4 8 50	
Petty Cash	2 0 0 00	
Interest Receivable	1 4 12	
Accounts Receivable	16 8 7 0 75	
Less: Allowance for Doubtful Accounts	9 1 6 01	15 9 5 4 74
Notes Receivable	10 7 8 0 00	
Merchandise Inventory	42 9 2 0 00	
Supplies	7 1 5 60	
Prepaid Insurance	9 7 1 50	
Total Current Assets		89 2 0 4 46
Fixed Assets		
Equipment	37 2 2 5 00	
Less: Accumulated Depreciation	10 5 0 2 50	26 7 2 2 50
Total Fixed Assets		26 7 2 2 50
Total Assets		115 9 2 6 96
Liabilities		
Current Liabilities		
Accounts Payable	12 1 4 2 00	
Notes Payable	3 5 1 7 00	
Employees Income Tax Payable	1 2 1 4 07	
Canada Pension Plan Payable	1 0 8 02	
Unemployment Insurance Payable	1 0 2 09	
Interest Payable	6 8 90	
Total Current Liabilities		17 1 5 2 08
Shareholders' Equity		
J. Haywood, Capital	49 8 1 6 17	
W. Parrish, Capital	48 9 5 8 71	
Total Capital		98 7 7 4 88
Total Liabilities and Shareholders' Equity		115 9 2 6 96

Instruction 6: Record the adjusting entries on page 5 of a general journal.

GENERAL JOURNAL PAGE 5

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1			*Adjusting Entries*				1
2	*Dec. 19xx*	*31*	*Interest Receivable*		*1 4 12*		2
3			*Interest Income*			*1 4 12*	3
4		*31*	*Bad Debts Expense*		*6 5 30*		4
5			*Allowance for Doubtful Accounts*			*6 5 30*	5
6		*31*	*Income Summary*		*45 3 5 0 00*		6
7			*Merchandise Inventory*			*45 3 5 0 00*	7
8		*31*	*Merchandise Inventory*		*42 9 2 0 00*		8
9			*Income Summary*			*42 9 2 0 00*	9
10		*31*	*Supplies Expense*		*1 0 4 4 60*		10
11			*Supplies*			*1 0 4 4 60*	11
12		*31*	*Insurance Expense*		*4 8 3 50*		12
13			*Prepaid Insurance*			*4 8 3 50*	13
14		*31*	*Depreciation Expense - Equipment*		*1 9 8 0 50*		14
15			*Accumulated Depreciation - Equipment*			*1 9 8 0 50*	15
16		*31*	*Interest Expense*		*6 8 90*		16
17			*Interest Payable*			*6 8 90*	17
18							18
19							19
20							20

Instruction 7: Record the closing entries on page 6 of a general journal.

GENERAL JOURNAL PAGE 6

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1			*Closing Entries*				1
2	19xx Dec.	31	*Sales*		389 7 1 1 50		2
3			*Purchases Returns and Allowances*		3 7 6 2 00		3
4			*Interest Income*		4 7 9 12		4
5			*Income Summary*			393 9 5 2 62	5
6		31	*Income Summary*		349 0 2 7 40		6
7			*Sales Returns and Allowances*			1 7 6 2 00	7
8			*Purchases*			256 0 9 0 40	8
9			*Advertising Expense*			2 5 4 8 00	9
10			*Delivery Expense*			4 8 5 4 00	10
11			*Miscellaneous Selling Expense*			3 0 6 25	11
12			*Sales Salary Expense*			47 9 5 6 00	12
13			*Bad Debts Expense*			6 5 30	13
14			*Depreciation Expense - Equipment*			1 9 8 0 50	14
15			*Insurance Expense*			4 8 3 50	15
16			*Miscellaneous Administrative Expense*			3 1 9 0 00	16
17			*Payroll Taxes Expense*			5 1 3 2 00	17
18			*Rent Expense*			10 8 0 0 00	18
19			*Administrative Salary Expense*			12 2 4 2 55	19
20			*Supplies Expense*			1 0 4 4 60	20
21			*Interest Expense*			5 7 2 30	21
22		31	*Income Summary*		42 4 9 5 22		22
23			*J. Haywood, Capital*			21 5 4 7 61	23
24			*W. Parrish, Capital*			20 9 4 7 61	24
25		31	*J. Haywood, Capital*		9 1 6 0 00		25
26			*J. Haywood, Drawings*			9 1 6 0 00	26
27		31	*W. Parrish, Capital*		8 2 5 0 00		27
28			*W. Parrish, Drawings*			8 2 5 0 00	28
29							29
30							30
31							31
32							32
33							33
34							34

Section 2: Total Marks 32

Section 3: Setting Up a Corporation

The basic goals of this section are to ensure that students

- can define and discuss unique characteristics of a corporation
- are able to explain procedures in the formation of a corporation
- can distinguish between the various types of shares issued by a corporation
- learn how to journalize investments made by investors in a corporation

Possible Activities

- Have students research the number and types of corporations in the community.
- Prepare a bulletin board display of the organizational chart of a business.
- Have students develop their own Articles of Incorporation.
- Use T accounts to demonstrate various journal entries made in a corporation.

Section 3 Activity 1

1. What is meant by an artificial person?

   An artificial person is a corporation created to act as a person.

2. List two important features of a corporation.

   Two important features of a corporation are

   - *permanence*
   - *limited liability*

3. What is a share certificate?

   A share certificate is a document stating that the person or company owns a share or shares in the corporation.

4. What is the Articles of Incorporation?

   The Articles of Incorporation is a written application made out to the government agency requesting approval to form the new corporation.

5. What is meant by double taxation being a disadvantage?

   Double taxation is disadvantageous because the government imposes taxes twice on the same earnings. The first tax is on the corporation's earnings. The second taxation is on the individual collecting a dividend from these taxed earnings.

6. Match the following by placing the Roman numerals from the right-hand column in the appropriate spaces in the left-hand column.

i	a. issued capital stock	(i)	number of shares sold
iii	b. outstanding capital stock	(ii)	price set on a share
iv	c. treasury stock	(iii)	number of shares held by shareholders
ii	d. par value stock	(iv)	shares repurchased by company
vi	e. no-par-value stock	(v)	application sent to government for permission to incorporate
ix	f. nonprofit corporation	(vi)	shares sold at market value
vii	g. private corporation	(vii)	it is restricted by the government as to the number of shares and shareholders
viii	h. public corporation incorporated businesses	(viii)	the majority of
x	i. shareholder	(ix)	Alberta Special Olympics
v	j. Articles of Incorporation	(x)	owners in the company
xi	k. Certificate of Incorporation	(xi)	permission given by the government to incorporate
xii	l. capital contribution	(xii)	purchase of share from company

7. a. Which share is more secure?

   The preferred share is more secure.

   b. What are dividends?

   Dividends are profits paid to shareholders.

8. The board of directors approved the following amounts for dividends in four successive years.

First year – $15 000.00
Second year – $40 000.00
Third year – $12 000.00
Fourth year – $65 000.00

This company has 2 000 shares of 10% preferred stock with a stated value of $100.00 a share, and 5 000 shares of common stock.

Instruction: Calculate the total amount of dividends paid each year on preferred stock and on common stock if the preferred stock is noncumulative and nonparticipating.

	Dividends Paid on Preferred	Dividends Paid on Common
First year	15 000 00	~~0~~
Second year	20 000 00	20 000 00
Third year	12 000 00	~~0~~
Fourth year	20 000 00	45 000 00

9. Using the data from question 8, calculate the total amount of dividends paid each year on preferred and common shares if the preferred shares are cumulative and nonparticipating.

	Dividends Paid on Preferred	Dividends Paid on Common
First year	15 000 00	~~0~~
Second year	25 000 00	15 000 00
Third year	12 000 00	~~0~~
Fourth year	28 000 00	37 000 00

10. Issue a share certificate to yourself as of October 13, 19xx, purchasing 650 shares. You are the president and are receiving the first certificate.

Incorporated in the Province of Alberta

Certificate Number: 1

This certifies that ....Your Name... is the registered holder of ...650... common shares in the authorized capital of **Candles For You**

Number of Shares: 650

transferable only on the books of the company in accordance with the Articles of the Company by completion of the endorsement and surrender of this certificate.

TRANSFER OF SHARES IS RESTRICTED

October 13, 19xx
Date

Your Name
President

Section 3 Activity 2

1. On October 1, 19xx, J. Jones purchased $1 000.00 worth of ABC Co. Ltd. common stock. Jones was issued 200 shares.

Instruction: Record the entry in the cash receipts journal provided. Receipt No. 001.

CASH RECEIPTS JOURNAL — PAGE 1

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS RECEIVABLE CREDIT	4 CASH DEBIT	
1	19xx Oct.	1	Capital Stock	001		1 000 00			1 000 00	1
2										2
3										3
4										4

2. On November 1, 19xx, Kelly Popovich agrees to purchase 100 shares for $1 000.00 from Candles for You. Kelly signs an agreement to make five, equal, monthly payments.

   When Kelly has made the final instalment on April 1, 19xx, Kelly's Subscriptions Receivable account in the subsidiary ledger will have a zero balance. The company will then issue the stock to Kelly.

   a. Record the entry for Kelly's agreement to purchase 100 shares for $1 000.00 on page 2 of the general journal.

GENERAL JOURNAL PAGE 2

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Nov.	1	Subscriptions Receivable / K. Popovich		1 0 0 0 00		1
2			Capital Stock Subscribed			1 0 0 0 00	2
3			Subscriptions received for 100 shares of $10.00				3
4							4
5							5

   b. Record the following transaction on page 16 of the general journal. On December 1, 19xx, Kelly Popovich paid the first $200.00 instalment.

GENERAL JOURNAL PAGE 16

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Dec.	1	Cash		2 0 0 00		1
2			Subscriptions Receivable / K. Popovich			2 0 0 00	2
3			Receipt of subscription payment				3
4							4
5							5

c. Record the following transaction on page 24 of the general journal. On April 1, 19xx, $1 000.00 worth of stock was issued to Kelly Popovich.

GENERAL JOURNAL PAGE 24

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Apr.	1	Capital Stock Subscribed		1 0 0 0 00		1
2			Capital Stock			1 0 0 0 00	2
3			Issue of shares on receipt of final instalment				3
4							4
5							5

3. April 14, 19xx, the board of directors of Candles for You declares a dividend of $12.00 per share to each common share. There are 10 000 common shares outstanding. The date of record is to be April 30, 19xx. The date of payment is to be June 1, 19xx.

Instruction: Record the declaration of the dividend on page 19 of the general journal.

GENERAL JOURNAL PAGE 19

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Apr.	15	Retained Earnings		120 0 0 0 00		1
2			Dividends Payable			120 0 0 0 00	2
3			Dividend declared				3
4							4
5							5

4. On June 1, 19xx, Candles for You issues a cheque to its bank for the full amount owed, $120 000.00. The bank creates a special account on which the numerous cheques may be drawn.

Instruction: Record the payment of the dividend to the bank account in order that it be distributed to the shareholders of the company. Use page 17 of the general journal.

GENERAL JOURNAL PAGE 17

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx June	1	Dividends Payable		120 0 0 0 00		1
2			Cash			120 0 0 0 00	2
3			Payment of dividend				3
4							4
5							5

Section 3 Follow-up Activities

Extra-help Activities

Extra-help Activity A

The flowchart activity is provided to help you organize your thoughts on corporation terminology. There is a blank following each term on the chart. Fill in the blank with the appropriate letter from the list of definitions that follows the chart.

1. Corporation __a__
2. Articles of Incorporation __f__
3. Limited Liability __q__
4. Shareholder __r__
5. Board of directors __c__
6. Share of stock __s__
7. Authorized capital stock __d__
8. Capital stock __b__
9. Common shares __e__
10. Cumulative shares __g__
11. Participating shares __n__
12. Share certificate __p__
13. Issued capital stock __m__ minus 14. Treasury stock __i__
equals 15. Outstanding capital stock __l__
16. Retained earnings __k__
17. Dividends __o__
18. Date of declaration __t__
19. Date of record __u__
20. Date of payment __v__
21. Capital Stock Subscribed __h__
22. Subscriptions Receivable __j__

Definitions

a. a business organization given by law the rights of a person

b. all shares that represent ownership in the business

c. elected by shareholders to set company policy

d. total number of shares a corporation may issue

e. normal shares issued by a corporation

f. asking government for permission to form a limited company

g. dividends must be paid towards this class of shares or accumulate until paid

h. account that shows the amount of capital stock that has been purchased but not yet paid

i. corporate stock that has been issued and then bought back by the company

j. a current asset showing amounts owed by persons buying capital stock on the instalment plan

k. profits of a corporation not yet distributed to shareholders

l. total number of shares owned by shareholders

m. total number of shares the corporation has sold to shareholders

n. privileged shareholders who gain the right to share dividends with the regular shareholders after getting a return on their investment

o. profits of a corporation distributed to the shareholders

p. proof of share ownership

q. financial obligation can be no more than investment

r. person owning one or more shares of a corporation

s. unit of ownership in a corporation

t. the day the board of directors votes to pay dividends

u. the day that determines who gets the dividends

v. the day when the shareholders of record receive their dividends

Extra-help Activity B

Wild Rose Jeans Ltd. was incorporated on February 1, 19xx. The authorized stock is 20 000 shares of common stock at no-par-value.

Instruction: Record the following transactions in the general journal (page 1), cash payments journal (page 1), and cash receipts journal (page 1) provided.

19xx

Feb. 1. The original investors purchased 2 000 common shares each at $20.00 per share. Receipt No. 001.

Feb. 3. Paid J. Dombraka $5 000.00 out of pocket expenses for organizing the corporation. Cheque No. 271.

Feb. 15. Received a stock subscription from Bobbie Bahr, a new investor, for 500 shares of common stock for $10 000.00. Bahr paid $2 000.00 down, with an agreement to pay the rest on May 15, 19xx. Receipt No. 002.

May 15. Recorded Bahr's final payment for stock subscribed. Receipt No. 003.

May 15. Recorded the issuing of shares to Bahr.

GENERAL JOURNAL PAGE 1

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Feb.	15	Subscriptions Receivable / B. Bahr		10 0 0 0 00		1
2			Capital Stock Subscribed			10 0 0 0 00	2
3	May	15	Capital Stock Subscribed		10 0 0 0 00		3
4			Capital Stock			10 0 0 0 00	4
5							5

CASH RECEIPTS JOURNAL PAGE 1

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS RECEIVABLE CREDIT	4 CASH DEBIT	
1	19xx Feb.	1	Capital Stock - Common	R001			40 000 00		40 000 00	1
2		15	Subscriptions Receivable / B. Bahr	R002			2 000 00		2 000 00	2
3	May	15	Subscriptions Receivable / B. Bahr	R003			8 000 00		8 000 00	3
4										4

CASH PAYMENTS JOURNAL PAGE 1

	DATE		ACCOUNT DEBITED	CH. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS PAYABLE DEBIT	4 CASH CREDIT	
1	19xx Feb.	3	Organization Costs	271		5 000 00			5 000 00	1
2										2
3										3
4										4

Enrichment Activities

Enrichment Activity A

Penny's Wire Products Ltd. has two classes of shareholders.

Class A – 4 000 shares at $100.00 nominal value per share with a 10% return

Class B – 6 000 shares with no special privileges

The board of directors declares the following sequence of dividends:

Year 1 – $36 000.00

Year 2 – $90 000.00

Year 3 – $30 000.00

Year 4 – $120 000.00

On the charts that follow, calculate the dividends to the two classes of shares under the conditions stipulated in the chart. The first one has been done for you.

SITUATION	DIVIDEND	YEAR	CLASS A CALCULATION	CLASS B CALCULATION	PORTION OF DIVIDEND	
					CLASS A	CLASS B
Cumulative, Participating	$36 000	1	10% × 400 000 = $40 000 only $36 000 declared so get it all	no residue available	$36 000	~~0~~
	$90 000	2	10% × 400 000 = $40 000 accumulates from year before $4 000 plus participate in $46 000	share in $46 000	$67 000	$23 000
	$30 000	3	10% × 400 000 = $40 000 only $30 000 declared so get it all	no residue available	$30 000	~~0~~
	$120 000	4	10% × 400 000 = $40 000 accumulates from year before $10 000 plus participate in $60 000	share in $60 000	$90 000	$30 000

SITUATION	DIVIDEND	YEAR	CLASS A CALCULATION	CLASS B CALCULATION	PORTION OF DIVIDEND	
					CLASS A	CLASS B
Cumulative, Nonparticipating	$36 000	1	10% × 400 000 = $40 000 *get all $36 000*	*no residue*	*$36 000*	~~0~~
	$90 000	2	10% × 400 000 = $40 000 *$4 000 accumulates to 44 000*	*get residue* *90 000 − 44 000* *= 46 000*	*$44 000*	*$46 000*
	$30 000	3	10% × 400 000 = $40 000 *only $30 000 declared so gets it all*	*no residue*	*$30 000*	~~0~~
	$120 000	4	10% × 400 000 = $40 000 *$10 000 accumulates to $50 000*	*gets residue* *$120 000* *− 50 000* *$ 70 000*	*$50 000*	*$70 000*

SITUATION	DIVIDEND	YEAR	CLASS A CALCULATION	CLASS B CALCULATION	PORTION OF DIVIDEND	
					CLASS A	CLASS B
Noncumulative, Participating	$36 000	1	10% × 400 000 = $40 000 *$36 000 declared so get it all*	*no residue*	*$36 000*	*~~0~~*
	$90 000	2	10% × 400 000 = $40 000 *plus share of residue $25 000*	*one half of residue $25 000*	*$65 000*	*$25 000*
	$30 000	3	10% × 400 000 = $40 000 *only $30 000 declared get it all*	*no residue*	*$30 000*	*~~0~~*
	$120 000	4	10% × 400 000 = $40 000 *plus share of residue $40 000*	*one half of residue $40 000*	*$80 000*	*$40 000*

SITUATION	DIVIDEND	YEAR	CLASS A CALCULATION	CLASS B CALCULATION	PORTION OF DIVIDEND	
					CLASS A	CLASS B
Noncumulative, Nonparticipating	$36 000	1	10% × 400 000 = $40 000 *$36 000 declared so get it all*	*no residue*	*$36 000*	*~~0~~*
	$90 000	2	10% × 400 000 = $40 000	*gets residue*	*$40 000*	*$50 000*
	$30 000	3	10% × 400 000 = $40 000 *$30 000 declared so get it all*	*no residue*	*$30 000*	*~~0~~*
	$120 000	4	10% × 400 000 = $40 000	*gets residue*	*$40 000*	*$80 000*

WHEN CLASS A STOCK IS	CLASS A TOTAL	CLASS B TOTAL
cumulative, participating	$223 000	$53 000
cumulative, nonparticipating	*160 000*	*116 000*
noncumulative, participating	*211 000*	*65 000*
noncumulative, nonparticipating	*146 000*	*130 000*

Enrichment Activity B

Indicate whether the statement is true or false. If the statement is false, correct the statement in the space provided.

1. The words, or the abbreviation of the words, limited or incorporated must appear in the name of a limited company.

   T

2. There are more ways to obtain capital in a partnership than in a corporation.

   F The capital of a corporation can be obtained in more ways.

3. Minority shareholders have a lot of say in a corporation.

   F Minority shareholders normally have little say.

4. Banks encourage small limited companies to borrow from them.

   F Banks force owners to guarantee loans.

5. Private corporations have less regulations that apply to them than public corporations.

   T

6. It is very simple to set up a corporation.

   F The steps to set up a corporation are many and costly.

7. The corporations, by law, have many of the same rights as a person.

   T

8. Corporations must earn a profit.

   F Just like any business, a corporation also has losses.

9. A share is a unit of ownership in the corporation.

   T

10. Limited liability means that the amount of money that can be borrowed is restricted.

    F Limited liability means your financial obligations to the business are limited.

11. The shareholders elect a board of directors.

    T

12. Company officers must be on the board of directors.

    F Company officers may or may not be on the board.

13. Organization costs can be classified as an asset.

    T

14. Treasury stocks are shares purchased by the corporation itself.

    T

15. Shareholders appoint the auditors of a corporation.

    T

16. Retained earnings are undistributed profits.

    T

17. Participating shareholders participate in the electing of the board of directors.

    F Participating shares normally apply to the sharing of dividends.

18. With convertible shares you get a car.

    F Convertible means you have the right to buy other stocks or bonds with this share.

19. Organization costs are written off with an adjusting entry.

    T

20. Subscriptions deal with buying stock on the instalment plan.

    T

Section 3 Assignment

The assignment and answers for Section 3 are given on the following pages. A suggested mark distribution follows:

Part A	4	marks
B	4	marks
C	6	marks
D	6	marks
Total	20	marks

The marks are also given in the left margin beside each question.

Section 3 Assignment A

4

The Provincial Foundries Ltd. was incorporated on March 15, 19xx. The authorized capital stock was for 20 000 shares of common stocks, no-par-value.

Instruction 1: Record the following transactions in a cash receipts journal, cash payments journal, and general journal.

19xx

Mar. 15. The four investors purchased 2 000 common shares each, at $20.00 per share, cash.

20. Paid the law firm of Millikin and Peters $6 000.00 for organization expenses.

26. Received a stock subscription from T. McAfee, a fifth investor, for 500 shares of common stock totalling $10 000.00. T. McAfee paid an initial $2 000.00, with the understanding that the remaining balance is to be paid June 1.

Instruction 2: Record T. McAfee's final payment to the corporation on June 1.

Instruction 3: Record the general journal entry for the issuance of shares to T. McAfee.

CASH RECEIPTS JOURNAL PAGE 1

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS RECEIVABLE CREDIT	4 CASH DEBIT	
1	19xx Mar.	15	Capital Stock				160 000 00		160 000 00	1
2		26	Subscriptions Rec. / T. McAfee				2 000 00		2 000 00	2
3	June	1	Subscriptions Rec. / T. McAfee				8 000 00		8 000 00	3
4										4

CASH PAYMENTS JOURNAL PAGE 1

	DATE		ACCOUNT DEBITED	CH. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS PAYABLE DEBIT	4 CASH CREDIT	
1	19xx Mar.	20	Organization Expense			600 00			600 00	1
2										2
3										3
4										4

GENERAL JOURNAL PAGE 1

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Mar.	26	Subscriptions Receivable - Common		100 00		1
2			Capital Stock Subscribed - Common			100 00	2
3	June	1	Capital Stock Subscribed - Common		100 00		3
4			Capital Stock			100 00	4
5							5
6							6

Section 3 Assignment B

4

The board of directors of the Frank Conway Co. Ltd. voted the following amounts for dividends for four successive years.

Year 1 – $30 000.00
Year 2 – $70 000.00
Year 3 – $22 000.00
Year 4 – $96 000.00

The Frank Conway Co. Ltd. has outstanding 4 000, 8% preferred shares, value $100.00 per share, and 6 000 shares of common stock.

The preferred shareholders must be paid before the common shareholders receive any dividends. In the normal year the preferred shareholders will receive $32 000.00 ($8.00 × 4 000 shares) if shares are noncumulative and nonparticipating. For example, in year 1, where the shares are noncumulative and nonparticipating, the preferred shareholders will receive all of the $30 000.00 that is available. In year 2, the preferred shareholders will receive $32 000.00, and the common shareholders will receive $38 000.00.

Instruction: Use the table shown to do the following steps:

Step 1: Calculate the dividends to be paid to preferred shareholders and common shareholders if the preferred shares are noncumulative and nonparticipating.

Step 2: Calculate the dividends to be paid to common and preferred shareholders if the preferred shares are cumulative and nonparticipating.

Step 3: Calculate the dividends to be paid to common and preferred shareholders if the preferred shares are noncumulative and participating.

Step 4: Calculate the dividends paid to common and preferred shareholders if the preferred shares are cumulative and participating.

Situation	Year	Total Dividends	Total Amount of Dividends Paid on Preferred Stock	Total Amount of Dividends Paid on Common Stock
1. Noncumulative, Nonparticipating	1	$30 000	*$30 000*	*-0-*
	2	70 000	*32 000*	*$38 000*
	3	22 000	*22 000*	*-0-*
	4	96 000	*32 000*	*$64 000*
2. Cumulative, Nonparticipating	1	$30 000	*$30 000*	*-0-*
	2	70 000	*34 000*	*$36 000*
	3	22 000	*22 000*	*-0-*
	4	96 000	*42 000*	*$54 000*
3. Noncumulative, Participating	1	$30 000	*$30 000*	*-0-*
	2	70 000	*32 000*	*$38 000*
	3	22 000	*22 000*	*-0-*
	4	96 000	*32 000 + 6 400 = 38 400*	*48 000 + 9 600 = 57 600*
4. Cumulative, Participating	1	$30 000	*$30 000*	*-0-*
	2	70 000	*34 000*	*$36 000*
	3	22 000	*22 000*	*-0-*
	4	96 000	*44 400*	*$51 600*

Section 3 Assignment C

6

Indicate whether each statement that follows is true (T) or false (F).

1. The corporation is recognized by law to have many of the rights of a real person.

   T

2. A corporation must earn a profit.

   F

3. A unit of ownership in a corporation is the stock certificate.

   T

4. The actual shares of ownership in a corporation are capital stock.

   T

5. The person owning the largest number of shares in a corporation usually determines corporate policies.

   F

6. The treasurer of a corporation is the chief accounting officer and has the responsibility over all accounting functions.

   F

7. The application for incorporation may be made to a municipal government.

   F

8. Subscribers make a written promise to buy a certain number of shares in a corporation.

   T

9. The Articles of Incorporation state the total amount of stocks the company may issue.

   T

10. The capital stock of a corporation is frequently divided into three types.

    T

11. A corporation that is quite small and has only one class of stock may issue preferred stock.

    F

12. A corporation is required by law to maintain a share register.

    T

13. When persons agree to buy stocks in a corporation on the instalment plan, the entry in the books is a credit to Subscriptions Receivable.

    F

14. The Capital Stock Subscribed account shows the capital stock that is being bought on the instalment plan.

    T

15. Subscriptions Receivable is a current asset.

    T

16. When a subscription is paid in full, a share certificate is issued to the subscriber.

    T

17. Organization costs are considered to be an expense to the company.

    F

18. Organization costs are listed as a current asset in the balance sheet.

    F

Section 3 Assignment D

6

For each definition, choose the correct term from the following list. Record your answers on the response pages.

authorized capital stock	organization costs
board of directors	outstanding capital stock
capital stock	participating preferred share
certificate of incorporation	preferred share
common share	retained earnings
controller	shareholder
convertible preferred share	share of stock
corporation	share certificate
cumulative preferred share	subscribers
dividends	

1. a group of individuals elected by voting shareholders to set the policies of the company, appoint officers, and assign responsibilities for the actual performance of functions

   board of directors

2. profits that are distributed to shareholders in a company

   dividends

3. the total equity of the owners of a corporation consisting of common and possible preferred stock

   outstanding capital stock

4. a preferred share in which unpaid dividends accumulate until profits allow for their payment and denies common shareholders any dividends until preferred shareholders' claims to dividends are fulfilled

   cumulative preferred share

5. a unit of ownership in a corporation in which all holders have equal rights

   common share

6. preferred stock that entitles a shareholder to share extra profits with common shareholders if profits available in dividends exceed a certain amount

   participating preferred share

7. a preferred share that gives the shareholder the right to convert the preferred share into a common share

   convertible preferred share

8. a share that entitles the shareholder to a fixed dividend rate and prior rights to the assets of a corporation upon liquidation before common shareholders

   preferred share

9. a person who has contracted to buy shares in a corporation, usually the original issue

   subscribers

10. a printed document that serves as evidence of ownership of shares in a corporation

    share certificate

11. the number of shares a corporation is permitted to issue according to its charter

    authorized capital stock

12. a unit of ownership in a limited company

    share of stock

13. a type of business organization that is recognized by law to have rights and privileges of a real person, and may be owned by many people

    corporation

14. a person who owns one or more shares in a limited company

    shareholder

15. the shares of the corporation that are paid for and actually issued

    capital stock

16. legal approval granted to the business by a state government to incorporate

    certificate of incorporation

17. the chief accounting officer of a corporation

    controller

18. fees and other costs incurred in the initial organizing of the company

    organization costs

Section 3: Total Marks 20

Section 4: Accounting for Corporations

The basic goals of this section are to ensure that students

- understand the ways in which corporations acquire capital
- learn how to prepare a worksheet for a corporation and how this varies from a partnership
- learn how to calculate corporate income tax
- learn how to construct financial statements for a corporation

Possible Activities

- Explain why and how corporations need to acquire capital.
- Compare the worksheet accounts of a partnership and a corporation and find differences.
- Use the overhead projector to illustrate how corporate income tax is calculated and how the adjusting entry is made.
- Demonstrate the preparation of financial statements of a corporation.

Section 4 Activity 1

1. On April 1, 19xx, 10 000 shares of common stock were purchased by three investors at $15.00 per share. Two other investors bought 5 000 shares of preferred stock at $15.00 per share.

   Instruction: Record these entries in the cash receipts journal.

CASH RECEIPTS JOURNAL PAGE 1

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS RECEIVABLE CREDIT	4 CASH DEBIT	
1	19xx Apr.	1	Capital Stock - Common				150 000 00		150 000 00	1
2		1	Capital Stock - Preferred				75 000 00		75 000 00	2
3										3
4										4

2. On February 1, 19xx, Janice Walker agreed to purchase 200 shares of $100.00 preferred stock for one delivery truck valued at $20 000.00. Issued Memorandum No.14.

Instruction: Record the following entry in the general journal, page 5.

GENERAL JOURNAL PAGE 5

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Feb.	1	Delivery Truck		20 0 0 0 00		1
2			Capital Stock - Preferred			20 0 0 0 00	2
3			Memorandum No. 14				3
4							4
5							5

3. a. On November 1, 19xx, Candles for You Limited receives $100 000.00 cash from a bond issue for 100, ten-year, 15% bonds with a stated value of $1 000.00 each.

Instruction: Record the receipt of the $100 000.00 bond on November 1, 19xx, by Candles for You Limited.

CASH RECEIPTS JOURNAL PAGE 7

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS RECEIVABLE CREDIT	4 CASH DEBIT	
1	19xx Nov.	1	Bonds Payable				100 0 0 0 00		100 0 0 0 00	1
2										2
3										3
4										4

b. At the end of each year, Candles for You Limited must pay interest on the bonds. The amount of interest will be 15% of $100 000.00 or $15 000.00.

Instruction: Record the payment of Cheque No. 423 for $15 000.00 bond interest to the trustee on October 31, 19xx. Use page 8 of the cash payments journal.

CASH PAYMENTS JOURNAL PAGE 8

	DATE		ACCOUNT DEBITED	CH. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS PAYABLE DEBIT	4 CASH CREDIT	
1	19xx Oct.	31	*Interest Expense*	423		15 0 0 0 00			15 0 0 0 00	1
2										2
3										3
4										4

4. a. On November 1, 19xx, Candles for You Limited makes its first payment of $100 000.00 to the Alberta Trust Company Limited for its bond sinking fund. Cheque No. 517.

Instruction: Record the payment of the annual payment to the sinking fund on page 2 of the cash payments journal.

CASH PAYMENTS JOURNAL PAGE 2

	DATE		ACCOUNT DEBITED	CH. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS PAYABLE DEBIT	4 CASH CREDIT	
1	19xx Nov.	1	*Bond Sinking Fund*	517		100 0 0 0 00			100 0 0 0 00	1
2										2
3										3
4										4

b. On November 1, 19xx, the beginning of the third year of the bond issue, record the payment of $90 000.00 to the trust company. Also record the $10 000.00 interest earned in the sinking fund under the trust company's control. Use page 4 of the cash payments journal.

CASH PAYMENTS JOURNAL PAGE 4

	DATE		ACCOUNT DEBITED	CH. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS PAYABLE DEBIT	4 CASH CREDIT	
1	19xx Nov.	1	*Bond Sinking Fund*			100 0 0 0 00			90 0 0 0 00	1
2			*Interest Income*				10 0 0 0 00			2
3										3
4										4

5. You have received notice from the bond trustee that the bond issue was retired using the Bond Sinking Fund to pay $75 000.00. Memo No. 24.

Instruction: Record this entry on page 5 of the general journal on May 15, 19xx.

GENERAL JOURNAL PAGE 5

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx May	15	Bonds Payable		75 0 0 0 00		1
2			Bond Sinking Fund			75 0 0 0 00	2
3			Memo. No. 24				3
4							4

Section 4 Activity 2

1. Record the adjusting entry on December 31, 19xx, to write off one half of the organization costs at an annual rate of 10%. The organization costs amounted to $4 100.00.

GENERAL JOURNAL PAGE 8

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	19xx Dec.	31	Organization Expense		2 0 5 00		1
2			Organization Costs			2 0 5 00	2
3							3
4							4

2. Use the following information to calculate the adjusting entry to Corporate Income Tax.

- The Income Statement Credit column footing is $164 820.00.
- The Income Statement Debit column footing is $117 800.00.
- The corporate tax rate is 28%.
- Corporate income tax prepaid to date is $11 478.00.

Income Statement Credit	*$164 820.00*
Less Income Statement Debit	*117 800.00*
Equals net income before taxes	*$ 47 020.00*
Tax at 28% equals	*$ 13 165.60*
Tax owed	*$ 13 165.60*
Prepaid tax	*11 478.00*
Adjustment	*$ 1 687.60*

3. Fill in the blanks by analysing the previous income statement for Calnorth Products Ltd.

   a. Is income tax paid an expense? Explain.

      Income tax is not paid an expense because the government does not allow it.

   b. How many expense categories are there on this income statement? Name them.

      There are two categories on the income statement. They are Selling and Administrative.

   c. What is the purpose of calculating and recording Bad Debts Expense?

      The purpose of calculating and recording Bad Debts Expense is to appropriate the expense of some accounts receivable that will not be paid.

   d. Where on the income statement do you place the amount of income tax paid to the government?

      The amount of income tax paid to the government is the last item on the income statement.

4. Refer to the previous shareholders' equity statement to answer these questions.

   a. What partnership statement is this similar to?

      The statement of shareholders' equity is similar to the capital statement.

   b. Why do you think that the shareholders' equity statement has two sections?

      The shareholders' equity statement has two sections because the items are very different so the reader of the statement is better informed.

   c. If there were three classes of common stock, A, B and C, how would they be shown on the statement of shareholders' equity?

      Each class of common stock would be shown separately.

   d. What three items should be included in the Retained Earnings section of the statement of shareholders' equity?

      The following should be included in the Retained Earnings section of the statement of shareholders' equity:

      - *the original balance*
      - *all additions*
      - *the new balance*

5. Refer to the previous balance sheet to answer the following questions.

   a. What is the purpose of the account Allowance for Doubtful Accounts?

      The purpose of the Allowance for Doubtful Accounts is to help create a reasonable figure for the accounts receivable.

   b. When the accumulated depreciation is deducted from the asset that it belongs to, what is the result?

      When accumulated depreciation is deducted from the assets, the amount shown is more realistic.

   c. Where on the balance sheet do you place the Organization Costs?

      Organization Costs are placed as an intangible asset.

   d. Why is Bonds Payable placed under Long-Term Liabilities?

      Bonds Payable is placed under Long-Term Liabilities because the liability will be in force longer than one year.

   e. Why isn't just one figure, the total from the statement of shareholders' equity, used on the balance sheet instead of the two figures shown?

      Two figures are shown because they are very separate types of categories and to better inform the reader.

6. a. From where does the information come to prepare the adjusting entries in the general journal?

      The information to prepare the adjusting entries comes from the Adjustments columns in the worksheet.

   b. What classification of account is Corporate Income Tax Payable?

      Corporate Income Tax Payable is a current liability.

   c. When accounts are closed in the general ledger, which accounts remain open?

      The following accounts remain open when accounts are closed in the general ledger: assets, liabilities, shareholders' equity.

Section 4 Follow-up Activities

Extra-help Activities

Extra-help Activity A

The worksheet for North Country Outfitting Ltd. is provided. (Only the numbers needed for this activity are shown.) The income tax rate used will be 25% of the net income before taxes.

1. Calculate the net income before taxes.

Income Statement Credit	*$200 000.00*
Less Income Statement Debit	*168 000.00*
Equals net income before taxes	*32 000.00*

2. Calculate the taxes owed.

25% of net income before taxes	*$8 000.00*
Less amount already paid	7 200.00
Equals amount owing	*$ 800.00*

3. Complete the worksheet by

- adjusting Corporate Income Tax and Corporate Income Tax Payable
- correcting the total of the Credit column of the balance sheet
- extending Corporate Income Tax to the Income Statement Credit column
- calculating the net income and totalling and ruling the worksheet

North Country Outfitting Ltd.

Worksheet

For Year Ended December 31, 19xx

ACCOUNT TITLES	ACCT. NO.	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Corporate Income Tax Payable					(k) 800.00				800.00
Corporate Income Tax		720.00		(k) 800.00		168 000.00 800.00	200 000.00		
						176 000.00	200 000.00	42 800.00	18 000.00
Net Income After Taxes						24 000.00			24 000.00
						200 000.00	200 000.00	42 800.00	42 800.00

Extra-help Activity B

The shareholders' equity statement for Dinners by Design Ltd. for 1991 is shown.

Dinners by Design Ltd.
Statement of Shareholders' Equity
For Year Ended December 31, 1991

Share Capital		
Capital Stock		
Common A (20 000 shares authorized)		
January 1, 1991, 5 000 shares issued		20 000 00
Retained Earnings		
January 1, 1991	2 000 00	
Add Net Income	2 000 00	
Balance, December 31, 1991		4 000 00
Total Shareholders' Equity		24 000 00

In 1992 the following transactions occurred:

April 1. The board of directors declared a dividend of $1.00 per share.

June 1. Issued dividends to the 5 000 shares.

Aug. 1. Three thousand shares were purchased for $6 000.00.

Sept. 30. A. Dude promised to buy 3 000 shares at $2.00 per share. Payment is due January 6, 1993.

Dec. 31. Net profit for the year was $6 000.00.

Instruction: Prepare a statement of shareholders' equity for Dinners by Design Ltd. for the year ended December 31, 1992.

Dinners by Design Ltd.
Statement of Shareholders' Equity
For Year Ended December 31, 1992

Share Capital			
Capital Stock			
Common A (20 000 shares authorized)			
January 1, 1991, 5 000 shares issued		20 0 0 0 00	
Issued in 1992		6 0 0 0 00	
Capital Stock, December 31, 1992			26 0 0 0 00
Retained Earnings			
January 1, 1992		9 0 0 0 00	
Add Net Income	6 0 0 0 00		
Less Dividends	5 0 0 0 00		
Net Increase		1 0 0 0 00	
Balance, December 31, 19xx			10 0 0 0 00
Total Shareholders' Equity			36 0 0 0 00

Enrichment Activities

Enrichment Activity A

On April 1, 1991, Northern Lights Incorporated received $100 000.00 cash for a twenty-year, 10% bond issue. The agreement provides for a sinking fund to be increased by twenty equal instalments over the life of the bond. Payment is to be made into the fund on March 31 at the end of each year.

Instruction: Record the following transactions in the general journal provided.

1991

April 1. Received $100 000.00 from underwriter.

1992

March 31. Paid the first payment of interest to the trustee of bondholders. (10% of $100 000.00)

31. Made the first instalment into the sinking fund.

1993

March 31. Made the second payment of interest to the trustee of bondholders. (10% of $100 000.00)

31. Made the second instalment to bond sinking fund less $500.00 interest earned by the first instalment. (Credit Interest Income.)

GENERAL JOURNAL PAGE 16

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	1991 Apr.	1	Cash		100 0 0 0 00		1
2			Bond Payable			100 0 0 0 00	2
3			Receipt of bonds money from underwriter				3
4	1992 Mar.	31	Interest Expense		10 0 0 0 00		4
5			Cash			10 0 0 0 00	5
6			Payment of interest				6
7		31	Bond Sinking Fund		5 0 0 0 00		7
8			Cash			5 0 0 0 00	8
9			Setting up sinking fund				9
10	1993 Mar.	31	Interest Expense		10 0 0 0 00		10
11			Cash			10 0 0 0 00	11
12			Payment of interest				12
13		31	Bond Sinking Fund		5 0 0 0 00		13
14			Interest Income			5 0 0 00	14
15			Cash			4 5 0 0 00	15
16			Payment to sinking fund and recording interest				16
17			earned				17
18							18
19							19

Enrichment Activity B

The shareholders' equity information for Brite Lites Ltd. for 1991 and 1992 follows.

June 30, 1991

Capital Stock	Authorized Capital	Issued Shares	Total
Common A	20 000	5 000	$30 000.00
Common B	20 000	10 000	40 000.00
Retained Earnings	$23 200.00 (includes the $20 000.00 dividend)		

June 30, 1992

Capital Stock	Authorized Capital	Issued Shares	Total
Common A	20 000	8 000	$48 000.00
Common B	20 000	12 000	48 000.00
Retained Earnings	$18 200.00		

Transactions for the fiscal period:

Sept. 30, 1991. Issued dividend of $20 000.00.

April 1, 1992. Johnny Canuck promised to buy 6 000 Common B shares at $6.00 a share, and pay for them on August 1, 1992.

June 30, 1992. There was a net profit of $15 000.00.

Brite Lites Ltd.
Statement of Shareholders' Equity
For Year Ended June 30, 1992

Share Capital			
Capital Stock			
Common A (20 000 shares authorized)			
July 1, 1991, 5 000 shares issued		30 0 0 0 00	
Issued During the Fiscal Period, 3 000 shares		18 0 0 0 00	
Total Common A, June 30, 1992			48 0 0 0 00
Common B (20 000 shares authorized)			
July 1, 1991, 10 000 shares issued		40 0 0 0 00	
Issued During the Fiscal Period, 2 000 shares		8 0 0 0 00	
Total Common B, June 30, 1992			48 0 0 0 00
Capital Stock, June 30, 1992			96 0 0 0 00
Retained Earnings			
July 1, 1991		23 2 0 0 00	
Add Net Income	15 0 0 0 00		
Less Dividends	20 0 0 0 00		
Net Decrease		5 0 0 0 00	
Balance, June 30, 1992			18 2 0 0 00
Total Shareholders' Equity			114 2 0 0 00

Section 4 Assignment

The assignment and answers for Section 4 are given on the following pages. A suggested mark distribution follows:

Part A	3	marks
B	5	marks
C	22	marks
Total	30	marks

The marks are also given in the left margin beside each question.

Section 4 Assignment A

3 Limited Access Limited has authorized 100 000 no-par-value shares of common stock. Twenty-five thousand eight hundred ninety-seven shares have already been issued.

Instruction: Record the following transactions on page 43 of the cash receipts journal.

19xx

April 1. Received $10 000.00 for 100 common shares from Monty Montana. R101.

April 2. Received $21 000.00 for 200 preferred shares from B. Columbia. R102.

CASH RECEIPTS JOURNAL PAGE 43

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS RECEIVABLE CREDIT	4 CASH DEBIT	
1	19xx Apr.	1	Capital Stock - Common	R101			10 000 00		10 000 00	1
2		2	Capital Stock - Preferred	R102			21 000 00		21 000 00	2
3										3
4										4

Section 4 Assignment B

5 On January 2, 1991, the Harrington Company receives $500 000.00 in cash for a twenty-year, 9% bond issue. The bond agreement with the trustee provides for a bond sinking fund, whereby the Harrington Company is to increase the fund by $25 000.00 at the end of each year.

Instruction 1: Record the cash received from the underwriter for the bond issue.

CASH RECEIPTS JOURNAL PAGE 20

	DATE		ACCOUNT CREDITED	DOC. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS RECEIVABLE CREDIT	4 CASH DEBIT	
1	1991 Jan.	2	Bonds Payable				500 0 0 0 00		500 0 0 0 00	1
2										2
3										3
4										4

Instruction 2: In the cash payments journal, record the interest paid Jan. 2, 1992, and on Jan. 2, 1993. You may record both payments on one page.

Instruction 3: Record the payments made to the trustee for the bond sinking fund.

Jan. 2, 1992. The first payment to the trustee is for $25 000.00.

Jan. 2, 1993. The trustee requires a payment of only $23 250.00 ($25 000.00 less $1 750.00 earned in interest). Credit Interest Income.

CASH PAYMENTS JOURNAL PAGE 31

	DATE		ACCOUNT DEBITED	CH. NO.	POST. REF.	1 GENERAL DEBIT	2 GENERAL CREDIT	3 ACCOUNTS PAYABLE DEBIT	4 CASH CREDIT	
1	1992 Jan.	2	Interest Expense			45 0 0 0 00			45 0 0 0 00	1
2	1993 Jan.	2	Interest Expense			45 0 0 0 00			45 0 0 0 00	2
3	1992 Jan.	2	Bond Sinking Fund			25 0 0 0 00			25 0 0 0 00	3
4	1993 Jan.	2	Bond Sinking Fund			25 0 0 0 00			23 2 5 0 00	4
5			Interest Income				1 7 5 0 00			5
6										6
7										7

Instruction 4: Record, in the general journal, the retirement of the bond issue at maturity. All interest payments and payments to the sinking fund have been made.

GENERAL JOURNAL PAGE 27

	DATE		ACCOUNT TITLE	POST. REF.	DEBITS	CREDITS	
1	1993 Jan.	2	Bonds Payable		500 0 0 0 00		1
2			Bond Sinking Fund			500 0 0 0 00	2
3			Retirement of the bond issue				3
4							4
5							5
6							6

Section 4 Assignment C

22

The trial balance of the Mavis Corporation is given on an eight-column worksheet for the current fiscal period for one year ending on December 31, 19xx.

Instruction 1: Complete the worksheet using the additional data given.

- The balance for the Allowance for Doubtful Accounts should be 7% of the balance in the Accounts Receivable account.
- Merchandise Inventory, December 31, is $69 400.00.
- Supplies – Store Inventory, December 31, is $930.00.
- Supplies – Office Inventory, December 31, is $660.00.
- The value of insurance policies on hand December 31 is $1 020.00.
- The annual rate of depreciation on office equipment, store equipment, and delivery equipment is 20%.
- The reducing-balance method is used for calculating depreciation.
- Write off as an expense 10% of Organization Costs as shown in the trial balance.
- Corporate income tax is 25%.

Mavis Corporation

Worksheet

For Year Ended December 31, 19xx

ACCOUNT TITLES	ACCT. NO.	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111	60 3 1 0 00						60 3 1 0 00	
Petty Cash	112	3 0 0 00						3 0 0 00	
Accounts Receivable	113	30 5 0 0 00						30 5 0 0 00	
Allowance for Doubtful Accounts	113.1		8 7 0 00		(a) 1 3 6 5 00				2 2 3 5 00
Subscriptions Receivable	114	6 0 0 0 00						6 0 0 0 00	
Merchandise Inventory	115	70 6 0 0 00		(c) 69 4 0 0 00	(b) 70 6 0 0 00			69 4 0 0 00	
Supplies - Store	116	2 8 5 0 00			(d) 1 9 2 0 00			9 3 0 00	
Supplies - Office	117	2 4 5 0 00			(e) 1 7 9 0 00			6 6 0 00	
Prepaid Insurance	118	3 2 5 0 00			(f) 2 2 3 0 00			1 0 2 0 00	
Bond Sinking Fund	121	20 0 0 0 00						20 0 0 0 00	
Office Equipment	131	18 8 0 0 00						18 8 0 0 00	
Accumulated Depr. - Office Equip.	131.1		3 1 5 0 00		(g) 3 7 6 0 00				6 9 1 0 00
Store Equipment	132	26 6 0 0 00						26 6 0 0 00	
Accumulated Depr. - Store Equip.	132.1		4 4 5 0 00		(h) 5 3 2 0 00				9 7 7 0 00
Delivery Equipment	133	25 8 0 0 00						25 8 0 0 00	
Accumulated Depr. - Del. Equip.	133.1		4 3 0 0 00		(i) 5 1 6 0 00				9 4 6 0 00
Organization Costs	141	2 9 0 0 00			(j) 2 9 0 00			2 6 1 0 00	
Accounts Payable	211		18 9 0 0 00						18 9 0 0 00
Employees Income Tax Payable	212		1 9 5 0 00						1 9 5 0 00
Canada Pension Plan Payable	213		3 2 0 00						3 2 0 00
Unemployment Insurance Payable	214		3 5 0 00						3 5 0 00
Corporate Income Tax Payable	215				(k) 2 1 25				2 1 25
Dividends Payable - Common	216								
Bonds Payable	221		100 0 0 0 00						100 0 0 0 00
Capital Stock - Common	311		50 0 0 0 00						50 0 0 0 00

Mavis Corporation

Worksheet (continued)

For Year Ended December 31, 19xx

ACCOUNT TITLES	ACCT. NO.	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Common Stock - Subscribed	312		10 0 0 0 00						10 0 0 0 00
Retained Earnings	313		22 5 0 0 00						22 5 0 0 00
Income Summary	314			(b) 70 6 0 0 00	(c) 69 4 0 0 00	70 6 0 0 00	69 4 0 0 00		
Sales	411		635 4 2 0 00				635 4 2 0 00		
Sales Returns and Allowances	411.1	3 5 5 0 00				3 5 5 0 00			
Purchases	511	420 6 0 0 00				420 6 0 0 00			
Purchases Returns and Allowances	511.1		2 9 5 0 00				2 9 5 0 00		
Purchases Discount	511.2		2 6 5 0 00				2 6 5 0 00		
Advertising Expense	611	3 9 0 0 00				3 9 0 0 00			
Delivery Expense	612	10 7 0 0 00				10 7 0 0 00			
Depreciation Expense - Del. Equip.	613			(i) 5 1 6 0 00		5 1 6 0 00			
Depreciation Exp. - Store Equip.	614			(h) 5 3 2 0 00		5 3 2 0 00			
Miscellaneous Selling Expense	615	3 2 0 0 00				3 2 0 0 00			
Sales Salary Expense	616	52 6 0 0 00				52 6 0 0 00			
Store Supplies Expense	617			(d) 1 9 2 0 00		1 9 2 0 00			
Bad Debts Expense	621			(a) 1 3 6 5 00		1 3 6 5 00			
Depreciation Expense - Office Equip.	622			(g) 3 7 6 0 00		3 7 6 0 00			
Insurance Expense	623			(f) 2 2 3 0 00		2 2 3 0 00			
Miscellaneous Admin. Expense	624	3 1 2 0 00				3 1 2 0 00			
Payroll Taxes Expense	625	5 6 5 0 00				5 6 5 0 00			
Rent Expense	626	24 0 0 0 00				24 0 0 0 00			
Salary Expense - Administrative	627	44 2 0 0 00				44 2 0 0 00			
Supplies Expense - Office	628			(e) 1 7 9 0 00		1 7 9 0 00			
Interest Income	711		1 7 2 0 00				1 7 2 0 00		

Mavis Corporation

Worksheet (continued)

For Year Ended December 31, 19xx

ACCOUNT TITLES	ACCT. NO.	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Interest Expense	811	7 5 0 0 00				7 5 0 0 00			
Organization Expense	812			(j) 2 9 0 00		2 9 0 00			
Corporate Income Tax	911	10 1 5 0 00		(k) 2 1 25		671 4 5 5 00 10 1 7 1 25	712 1 4 0 00		
		859 5 3 0 00	859 5 3 0 00	161 8 5 6 25	161 8 5 6 25	681 6 2 6 25	712 1 4 0 00	262 9 3 0 00	232 4 1 6 25
Net Income After Taxes						30 5 1 3 75			30 5 1 3 75
						712 1 4 0 00	712 1 4 0 00	262 9 3 0 00	262 9 3 0 00
Calculation									
Net Income Before Income Tax		40 6 8 5 00							
25%		10 1 7 1 25							
Already Paid		10 1 5 0 00							
Owe to Government		2 1 25							

Instruction 2: From the worksheet for the Mavis Corporation that you completed, construct an income statement for the fiscal period ended on December 31, 19xx.

Mavis Corporation
Income Statement
For Year Ended December 31, 19xx

Operating Revenue				
Sales		635 420 00		
Less: Sales Returns and Allowances		3 550 00		
Net Sales			631 870 00	
Cost of Merchandise Sold				
Merchandise Inventory, January 1, 19xx		70 600 00		
Purchases	420 600 00			
Less: Purchases Returns and Allowances 2 950.00				
Purchases Discount 2 650.00	5 600 00	415 000 00		
Total Cost of Merchandise Available for Sale		485 600 00		
Less: Merchandise Inventory, December 31, 19xx		69 400 00		
Cost of Merchandise Sold			416 200 00	
Gross Profit on Operations			215 670 00	
Operating Expenses				
Selling Expenses				
Advertising Expense	3 900 00			
Delivery Expense	10 700 00			
Depreciation Expense - Delivery Equipment	5 160 00			
Depreciation Expense - Store Equipment	5 320 00			
Miscellaneous Selling Expense	3 200 00			
Sales Salaries Expense	52 600 00			
Store Supplies Expense	1 920 00			
Total Selling Expenses		82 800 00		
Administrative Expenses				
Bad Debts Expense	1 365 00			
Depreciation Expense - Office Equipment	3 760 00			
Insurance Expense	2 230 00			
Miscellaneous Administrative Expense	3 120 00			
Payroll Taxes Expense	5 650 00			
Rent Expense	24 000 00			
Salaries Expense - Administrative	44 200 00			
Supplies Expense - Office	1 790 00			
Total Administrative Expenses		86 110 00		
Total Operating Expenses			168 915 00	
Income from Operations			46 755 00	

Mavis Corporation
Income Statement (continued)
For Year Ended December 31, 19xx

Other Revenue			
Interest Income		172 00	
Other Expenses			
Interest Expense	750 00		
Organization Expense	290 00		
Total Other Expenses		790 00	
Net Deduction			607 00
Net Income Before Corporate Income Tax			40 685 00
Less: Corporate Income Tax			10 171 25
Net Income After Corporate Income Tax			30 513 75

Instruction 3: Prepare a statement of shareholders' equity using the following additional data.

Jan. 1. There were 5 000 shares of no-par-value common stocks issued at $10.00 per share. The authorized capital stock was 20 000 shares.

Jan. 1. The balance of the Retained Earnings account was $27 500.00.

June 1. Dividends of $1.00 per share were declared during the year. Dividends were paid on June 30.

Mavis Corporation
Statement of Shareholders' Equity
For Year Ended December 31, 19xx

Share Capital			
Capital Stock			
Common (20 000 shares authorized)			
January 1, 19xx, 5 000 shares issued		50 0 0 0 00	
Other Capital			
Common Stock Subscribed		10 0 0 0 00	
Total Share Capital			60 0 0 0 00
Retained Earnings			
January 1, 19xx		27 5 0 0 00	
Plus: Net Income After Taxes (19xx)	30 5 1 3 75		
Less: Dividend Declared, June 1, 19xx	5 0 0 0 00		
Net Increase in 19xx		25 5 1 3 75	
Balance, December 31, 19xx			53 0 1 3 75
Total Shareholders' Equity			113 0 1 3 75

Instruction 4: Prepare a balance sheet for the Mavis Corporation as of December 31, 19xx.

Section 4: Total Marks 30

Mavis Corporation
Balance Sheet
December 31, 19xx

Assets			
Current Assets			
Cash		60 3 1 0 00	
Petty Cash		3 0 0 00	
Accounts Receivable	30 5 0 0 00		
Less: Allowance for Doubtful Accounts	2 2 3 5 00	28 2 6 5 00	
Subscriptions Receivable		6 0 0 0 00	
Merchandise Inventory		69 4 0 0 00	
Store Supplies		9 3 0 00	
Office Supplies		6 6 0 00	
Prepaid Insurance		1 0 2 0 00	
Total Current Assets			166 8 8 5 00
Long-Term Investment			
Bond Sinking Fund			20 0 0 0 00
Fixed Assets			
Office Equipment	18 8 0 0 00		
Less: Accumulated Depreciation - Office Equipment	6 9 1 0 00	11 8 9 0 00	
Store Equipment	26 6 0 0 00		
Less: Accumulated Depreciation - Store Equipment	9 7 7 0 00	16 8 3 0 00	
Delivery Equipment	25 8 0 0 00		
Less: Accumulated Depreciation - Delivery Equipment	9 4 6 0 00	16 3 4 0 00	
Total Fixed Assets			45 0 6 0 00
Intangible Assets			
Organization Costs			2 6 1 0 00
Total Assets			234 5 5 5 00
Liabilities			
Current Liabilities			
Accounts Payable	18 9 0 0 00		
Employees Income Tax Payable	1 9 5 0 00		
Canada Pension Plan Payable	3 2 0 00		
Unemployment Insurance Payable	3 5 0 00		
Corporate Income Tax Payable	2 1 25		
Total Current Liabilities		21 5 4 1 25	
Long-Term Liabilities			
Bonds Payable		100 0 0 0 00	
Total Liabilities			121 5 4 1 25

Mavis Corporation
Balance Sheet (continued)
December 31, 19xx

Shareholders' Equity		
Total Share Capital	60 0 0 0 00	
Retained Earnings	53 0 1 3 75	
Total Shareholders' Equity		113 0 1 3 75
Total Liabilities and Shareholders' Equity		234 5 5 5 00

c. 2

Page 88

On the North Country Outfitting Ltd. Worksheet, change the subtotal in the Balance Sheet Credit column from **18 000.00** to **18 800.00**.

Page 89

Change the third line of the heading from **For Year Ended December 31, 1991** to **December 31, 1991**.

Page 90

On the Statement of Shareholders' Equity, change the January 1, 1992 line from **9 000.00** to **4 000.00**. Change the Balance, December 31, 19xx line from **10 000.00** to **5 000.00**.

Page 96

Make the following changes to the Adjustments Credit column and to the same row of the Balance Sheet columns:

(a)**1 265.00** (and change the value in the Balance Sheet Credit column to **2 135.00**)

(g)**3 130.00** (and change the value in the Balance Sheet Credit column to **6 280.00**)

(h)**4 430.00** (and change the value in the Balance Sheet Credit column to **8 880.00**)

(i)**4 300.00** (and change the value in the Balance Sheet Credit column to **8 600.00**)

(j) **145.00** (and change the value in the Balance Sheet Debit column to **2 755.00**)

(k) **677.50** (and change the value in the Balance Sheet Credit column to **677.50**)

Page 97

Make the following changes to the Adjustments Debit column and the Income Statement Debit column:

(i)**4 300.00** (and change the value in the Income Statement Debit column to **4 300.00**)

(h)**4 430.00** (and change the value in the Income Statement Debit column to **4 430.00**)

(a)**1 265.00** (and change the value in the Income Statement Debit column to **1 265.00**)

(g)**3 130.00** (and change the value in the Income Statement Debit column to **3 130.00**)

Page 98

Make the following changes to the worksheet. Note that only the columns needing corrections are shown and the only the numbers needing corrections are bold.

ACCOUNT	ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Interest Expense			7 500.00			
Organization Expense	(j) **145.00**		**145.00**			
			668 830 . 00	12 1400 . 00		
Corporate Income Tax	(k) **677.50**		**10 827.50**			
	159 887.50	**159 887.50**	**679 657.50**	712 140.00	**263 075.00**	**230 592.50**
Net Income After Taxes			**32 482.50**			**32 482.50**
			712 140.00	712 140.00	**263 075.00**	**263 075.00**

Make the following changes to the calculation at the bottom of the worksheet.

Calculation	
Net Income Before Income Tax	**43 310.00**
25%	**10 827.50**
Already Paid	10 150.00
Owe to Government	**677.50**

Page 99

Change the values for the following entries:

Total Selling Expense	**81 050.00**
Total Administrative Expenses	**85 385.00**
Total Operating Expenses	**166 435.00**
Income from Operations	**49 235.00**

Page 100

Change the values for the following entries:

Organization Expense	**145.00**
Total Other Expenses	**7 645.00**
Net Deduction	**5 925.00**
Net Income Before Corporate Income Tax	**43 310.00**
Less: Corporate Income Tax	**10 827.50**
Net Income After Corporate Income Tax	**32 482.50**

c. 2

Page 101

Change the values for the following entries:

Plus: Net Income After Taxes (19xx)	**32 482.50**
Net Increase in 19xx	**27 482.50**
Balance, December 31, 19xx	**54 982.50**
Total Shareholders' Equity	**114 982.50**

Page 102

Change the values for the following entries:

Less: Allowance for Doubtful Accounts	**2 135.00**	**28 365.00**	
Total Current Assets			**166 985.00**
Less: Accumulated Depreciation – Office Equipment	**6 280.00**	**12 520.00**	
Less: Accumulated Depreciation – Store Equipment	**8 880.00**	**17 720.00**	
Less: Accumulated Depreciation – Delivery Equipment	**8 600.00**	**17 200.00**	
Total Fixed Assets			**47 440.00**
Organization Costs			**2 755.00**
Total Assets			**237 180.00**
Corporate Income Tax Payable	**677.50**		
Total Current Liabilities		**22 197.50**	
Total Liabilities			**122 197.50**

Page 103

Change the values for the following entries:

Retained Earnings	**54 982.50**	
Total Shareholders' Equity		**114 982.50**
Total Liabilities and Shareholders' Equity		**237 180.00**

Module 4

Page 11, 15, and 19

The value given on Line 29 of the Used Bikes Debit column, 15 650.00, should be moved to Line 30 of the same column.

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Accounting 30

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